比亞迪電子(國際)有限公司
BYD ELECTRONIC (INTERNATIONAL) COMPANY LIMITED

(Stock Code 股份代號: 285)

A Vision For Future

Annual Report

2016 年年報

BYD Electronic (International) Company Limited ("BYD Electronic" or the "Company"; together with its subsidiaries known as the "Group"; stock code: 0285) was spun off from BYD Company Limited ("BYD", stock code: 1211) and listed on the Main Board of the Hong Kong Stock Exchange on 20 December 2007. It is a world-leading provider of original design, components manufacturing and complete assembly services for mobile intelligent terminals. The Company provides vertically integrated one-stop services to global leading brand manufacturers for mobile intelligent terminals (original equipment manufacturers ("OEMs")). Its highly vertically integrated capability enhances its ability to provide customers with a full range of services, and quickly and efficiently respond to changing demands.

比亞迪電子（國際）有限公司（「比亞迪電子」或「本公司」，連同其附屬公司統稱「本集團」；股份代號：0285）於二零零七年十二月二十日由比亞迪股份有限公司（「比亞迪」；股份代號：1211）分拆於香港聯合交易所主板獨立上市。比亞迪電子是一家國際領先的移動智能終端設計、部件生產及整機組裝服務供應商。公司為全球知名移動智能終端品牌廠商（即原設備製造商或OEM）提供垂直整合的一站式服務。公司的高度垂直整合能力使得公司可以為客戶提供全面的服務，更快和更有效率地迎合市場不斷變化的需求。

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FINANCIAL HIGHLIGHTS

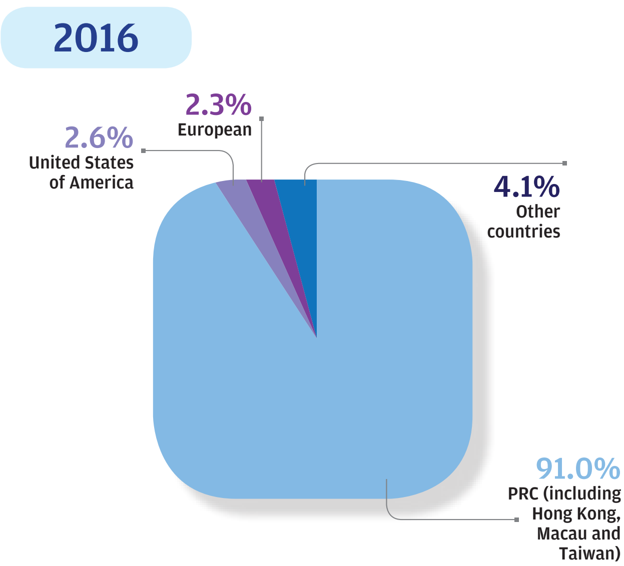
FIVE-YEAR COMPARISON OF KEY FINANCIAL FIGURES

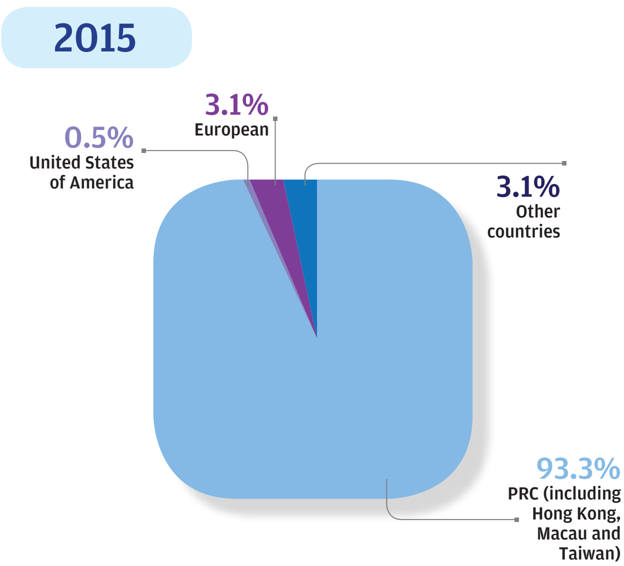
	For the year ended 31 December				
	2016	2015	2014	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	**36,734,264**	29,285,830	19,832,127	16,062,179	14,090,909
Gross profit	**2,800,129**	1,903,545	2,105,162	1,679,002	1,190,104
Gross profit margin (%)	**8**	7	11	10	8
Profit attributable to equity holders of the parent	**1,233,491**	908,145	901,697	648,405	378,946
Net profit margin (%)	**3**	3	5	4	3

	For the year ended 31 December				
	2016	2015	2014	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Net assets	**11,754,222**	10,547,779	9,665,212	8,834,141	8,254,418
Total assets	**23,994,987**	22,244,401	16,834,457	13,876,605	11,888,796
Gearing ratio (%) (Note)	**-25**	-19	-18	-27	-26
Current ratio (times)	**1.34**	1.24	1.51	1.74	1.98
Account and bills receivable turnover (days)	**85**	86	90	70	80
Inventory turnover (days)	**41**	44	47	48	52

Note: Gearing ratio = Total interest-bearing bank borrowings net of cash and bank balances/equity

TURNOVER BREAKDOWN BY LOCATION OF CUSTOMERS





EXECUTIVE DIRECTORS
Wang Nian-qiang
Wang Bo

NON-EXECUTIVE DIRECTORS
Wang Chuan-fu
Wu Jing-sheng

INDEPENDENT NON-EXECUTIVE DIRECTORS
Chung Kwok Mo John
Antony Francis MAMPILLY
Qian Jing-jie

COMPANY SECRETARIES
Li Qian
Cheung Hon-wan

AUDIT COMMITTEE
Wang Chuan-fu
Wu Jing-sheng
Chung Kwok Mo John (Chairman)
Antony Francis MAMPILLY
Qian Jing-jie

REMUNERATION COMMITTEE
Wang Nian-qiang
Wang Chuan-fu
Chung Kwok Mo John
Antony Francis MAMPILLY
Qian Jing-jie (Chairman)

NOMINATION COMMITTEE
Wang Bo
Wang Chuan-fu (Chairman)
Chung Kwok Mo John
Antony Francis MAMPILLY
Qian Jing-jie

AUTHORIZED REPRESENTATIVES
Wang Nian-qiang
Wu Jing-sheng

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WEBSITE
www.byd-electronic.com

STOCK CODE
0285

CHAIRMAN'S STATEMENT

Dear shareholders,

On behalf of the Board of Directors of BYD Electronic (International) Company Limited ("BYD Electronic" or the "Company") and its subsidiaries (which are collectively referred to as the "Group"), I hereby present the annual report of the Company for the year ended 31 December 2016 (the "Year") to all shareholders.

In 2016, the global economy was clouded by number of uncertainties, and the economic development remained stagnant. During the Year, the growth in global smartphone shipments continued to slow down significantly. In 2016, the shipments were 1.47 billion units, representing a year-on-year slightly increase of 2.3%. In China, smartphone shipments in 2016 were 522 million units, representing a year-on-year increase of 14.0%, handsets of domestic brands continued to maintain its leading position in the market.

During the Year, the Group's turnover amounted to approximately RMB36,734 million, representing a year-on-year increase of 25.43%, and the profit attributable to the owners of the parent company was RMB1,233 million, representing an increase of 35.83% as compared with that of 2015. The Board of Directors recommended a final dividend for the year ended 31 December 2016 of RMB0.069 per share.

As using more metal parts, being thinner and lighter and having bigger screens became the development trends of smartphones, the penetration rate of metal parts in smartphones, tablets and other smart mobile devices market continued to rise. In 2016, leading domestic smartphone brands, with growing sales volume and further enlarged market scales, became a major growth engine of the group's metal parts business. As market penetration rate continued to increase and sales of major customers grew rapidly, during the Year, the orders of metal parts business of the Group recorded an outstanding performance, enabling the Group to achieve a significant growth in revenues and profits. During the Year, the Group successively received orders from a plurality of global well-known smartphone brands to continue providing them with metal casings, metal middle frames and other handset components for their high-end flagship models, as such the Group's position in the industry continued to rise.

As a leading manufacturer in handset components and in the assembly industry, the Group has strived to promote the ODM business of products covering smartphones, tablets and other smart mobile devices to provide customers with one-stop service covering original design, components manufacturing and complete assembly. During the Year, the Group has actively promoted the development of auto electronics business to nurture new growth engines for long-term and continuous development in the future.

Looking into 2017, in the face of slow growth in the market and a landscape of increasingly fierce market competition, major handset manufacturers will continue to expand their market shares through product innovations and technology upgrade. In the future, metal casings and metal middle frames are still expected to be the main trend in the industry, whose market penetration rate will continuously increase. It is expected that metal parts business will continue to be an important growth driver for the revenue of the Group in the future. Meanwhile, the Group also actively conducts research and development on new products and new workmanship, including glass and ceramic, enhances the product yield rate and expands its production capacity, in order to be well-prepared for the customers' diversified product needs in the future. Moreover, the Group will continue to negotiate cooperation opportunities with potential customers, expand the network of customer resources and increase market shares to drive the continuous growth in the revenue and profit of the Group.

Finally, on behalf of BYD Electronic, I would like to thank our loyal customers, business partners, investors and shareholders for their support and trust in the Group. I would also like to thank all the staff members for their concerted efforts during the past year. BYD Electronic will continue to push forward the development of all its business segments. The Group will become an internationally authoritative supplier of handsets and other electronic product components and assembly services with the capability of highly vertical integration. We will spear our efforts to record an outstanding performance and continue to go forth with a goal of maximizing returns for our shareholders in 2017.

Wang Chuan-fu
Chairman
Hong Kong, 28 March 2017

INDUSTRY REVIEW

During the year ended 31 December 2016 (the "Year"), the global economy carried on its profound adjustment, and the continued sluggish economic growth of advanced economies led to weak consumer demand. Though emerging economies stabilized with advancements, differentiation tendency intensified. In addition, multiple risks such as Brexit and the US presidential election intensified the uncertainties of global economic growth. As for China, though under the relatively large downward pressure of domestic economy in 2016, the Chinese economy maintained stable progress, with GDP growing at 6.7%. The central government adjusted the industrial structure and promoted industrial transformation and upgrading by focusing on pushing forward the structural reform of the supply front, so as to ensure the stability of the national economy and the quality enhancement of economic growth.

During the Year, the global smartphone shipments showed a significant slowdown in growth. The global smartphone shipments were approximately 1.47 billion units, representing a year-on-year growth of only 2.3% in 2016, according to the statistics provided by IDC, a globally recognized market research institution. Despite the slow growth of global smartphone shipments, demand for high-end smartphones maintained rapid growth, which brings a structural opportunity in our industry.

In the Chinese market, Chinese branded handset manufacturers accurately grasped users' demand by technical innovation, therefore substantially expanded its market share in the domestic high-end handset market. In addition, by actively expanding in overseas markets, overseas sales and market share of Chinese branded handsets also increased continuously. In 2016, among the top five global smartphone brands in terms of sales, three were Chinese proprietary brands, giving new impetus to development in the global market. According to data released by China Academy of Telecommunication Research, the shipments in domestic handset market were 560 million units in 2016, representing a year-on-year increase of 8.0%. Among which, the shipments of smartphones increased by 14.0% to 522 million units, representing 93.2% of the shipments of domestic handsets for the same period. While the shipments of Chinese branded handsets increased by 16.1% to 498 million units, representing 88.9% of the shipment of domestic handsets for the same period.

As to the use of materials, with consumers' higher demand for smartphone aesthetics, metallization, lightening and thinning as well as expansion of screen size have become the development trends for smartphones. Relying on excellent mechanical performance and appearance, the metal casings and metal middle frames of handsets gained more and more popularity from consumers, and gradually infiltrated from high-end handsets to mid and low-end handsets, which has further driven the market demand for such metal parts.

BUSINESS REVIEW

BYD Electronic (International) Company Limited ("BYD Electronic" or the "Company") and its subsidiaries (collectively referred to as the "Group") is a supplier of handset components and assembly services with leading technological strengths and cost competitiveness in the industry. The Company adopts an operating strategy of providing one-stop services with highly vertical integration, and provides handset manufacturers of different brands with various services such as the manufacture of handset components as well as handset design and assembly. It also provides such services as product design, components manufacturing and assembly for manufacturers of other electronic products. During the Year, the Group's turnover increased by approximately 25.43% year-on-year to approximately RMB36,734 million. Profit attributable to shareholders increased by approximately 35.83% to approximately RMB1,233 million as compared to the same period in 2015.

With continuing popularity among consumers, the penetration of metal parts in smartphones, tablet computers and other mobile intelligent terminals increased continuously. The Group's metal parts business appeared to be powerful, which brought significant growth of the Group's income and profit. During the Year, revenue generated from the Group's metal parts business increased significantly by over 50% as compared to last year. Moreover, the Group also actively dedicated resources to the research and development on new materials and workmanship including glass and ceramic, in order to provide customers with diversified product offerings.

In terms of customers, the Group continued to maintain close business relationships with well-known domestic and overseas leading manufacturers of handsets. Leveraging on the long-term accumulated experiences, leading technical advantages, advanced processing procedures and cost competitiveness, during the Year, the Group successively received orders from a plurality of well-known global smartphone manufacturers to continue providing them with metal middle frames and metal casings and other handset components for their middle-end and high-end flagship models, and order quantity recorded rapid growth. In 2016, the sales of domestic leading smartphone manufacturers continued to increase, with market shares further increased, which became one of the major drivers for the Group's metal parts business.

During the Year, the assembly business of the Group achieved sound development with continuous smartphone EMS orders from the leading brands, successfully secured the ODM order of high-end notebook computers from global leading brand of games, and actively expanded customer base, so as to enable the assembly business continue to maintain a leading position in the industry.

FUTURE STRATEGY

Looking into 2017, the global economy still faces many uncertainties and risks. China's economy is still under structural adjustment, with economic growth expected to continue to slow. According to the forecast of IDC, global smartphone growth in 2017 will be higher than that of 2016. Facing slow market growth and market landscape with more intense competitiveness, it is expected that handset manufacturers of Chinese domestic brands will continue to improve their market shares through innovation and technological upgrade.

In the future, metal casings and metal middle frames will still be the mainstream trend of the industry, and the penetration rate will continue to increase. Metal parts business will continue to be the Group's major growth point of future revenue. In response, the Group will increase its investment in metal parts and grasp new trends of future development by technical innovation, in order to boost the ongoing growth of metal parts business. In view of consumers' diverse demand for the appearance of handsets, the Group will robustly expand its new businesses including glass and ceramic in the future, so as to offer a more diverse solution to customers.

In the future, the Group will continue to deepen the cooperation with existing well-known domestic and overseas manufacturers of handsets to secure more orders for metal parts business and assembly business, and to seek more diversified cooperation in smartphone industry chain. Meanwhile, the Group will continue to discuss cooperation opportunities with potential customers, expand customer resources networks and increase market shares. In terms of the assembly business, the Group will increase its market expansion efforts and grasp new trend of industrial development, and actively expand business sectors of auto electronics, unmanned planes and other consumer electronic products, with a view to cultivate new growth point for the Group's continuous development in future.

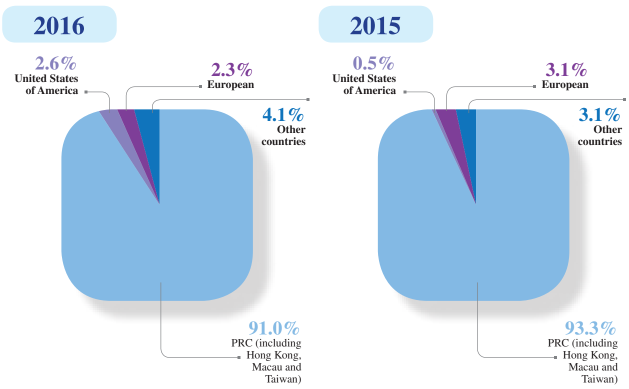
Looking to the future, BYD Electronic will remain committed to its core value positioning, grasp industrial development opportunity, accelerate its technical innovation, improve competitiveness of products, and provide customers with innovative products with cost efficiency. Meanwhile, the Group will continue to improve its capacity and leverage on its cost advantage to lay a solid foundation for its long term development and to create solid returns for its shareholders and investors.

FINANCIAL REVIEW

Turnover recorded an increase of 25.43% as compared to the previous year. Profit attributable to equity owners of the parent recorded an increase of 35.83% as compared to the previous year, mainly attributable to the growth of metal parts and assembly business.

SEGMENTAL INFORMATION

Set out below is the comparison of geographical segment information by customer location for the year ended 31 December 2015 and 2016:



GROSS PROFIT AND MARGIN

The Group's gross profit for the Year increased by approximately 47.10% to approximately RMB2,800 million. Gross profit margin increased from approximately 6.50% in 2015 to 7.62%.The increase in gross profit margin was mainly due to the increase in income proportion and gross profit margin of metal parts.

LIQUIDITY AND FINANCIAL RESOURCES

During the Year, the Group recorded cash inflow from operations of approximately RMB2,954 million, compared with approximately RMB3,359 million recorded in 2015. During the Year, funds were mainly obtained from the net cash derived from the Company's operations. As of 31 December 2016 and 31 December 2015, the Group did not have bank borrowings.

The Company maintained sufficient daily liquidity management and capital expenditure requirements, so as to control internal operating cash flows. Turnover days of accounts and bills receivables was approximately 85 days for the year ended 31 December 2016, compared with approximately 86 days for the year ended 31 December 2015. Turnover days of inventory for the year ended 31 December 2016 was approximately 41 days, compared with approximately 44 days for the year ended 31 December 2015.

CAPITAL STRUCTURE

The duty of the Company's financial division is to manage the Company's financial risk, and to operate in accordance with the policies approved and implemented by the senior management. As of 31 December 2016, the Company had no bank borrowings and its cash and cash equivalents were mainly held in Renminbi and US dollars. The Company's current bank deposits and cash balances and fixed deposits, as well as the Company's credit facilities and net cash derived from operating activities will be sufficient to satisfy the Company's material commitments and the expected need for working capital, capital expenditure, business expansion, investments and debt repayment for at least the next year.

The Group monitors capital using a gearing ratio, which is net debt divided by equity. The Group's policy is to maintain the gearing ratio as low as possible. Net debt includes interest-bearing bank borrowings, less cash and bank balances. Equity represents equity attributable to owners of the parent. As the Group did not have any interest-bearing bank borrowings, the gearing ratio was zero as at 31 December 2016 and 31 December 2015.

EXPOSURE TO FOREIGN EXCHANGE RISK

Most of the Company's income and expenditure are settled in Renminbi and US dollars. During the Year, the Company recorded gains arising from exchange differences, which was mainly attributable to the change in exchange rate of US dollars against Renminbi. During the Year, the Company did not encounter any significant difficulties or come under any impact on its operations or liquidity due to fluctuation in currency exchange rates. The directors believe that the Company will have sufficient foreign exchange to meet its own foreign exchange needs.

EMPLOYMENT, TRAINING AND DEVELOPMENT

As at 31 December 2016, the Company had employed approximately 77,000 employees. During the Year, total staff cost accounted for approximately 13.89% of the Company's turnover. The Company determines the remuneration of its employees based on their performance, experience and prevailing industry practices, and compensation policies are reviewed on a regular basis. Bonuses and rewards may also be given to employees based on their annual performance evaluation. Incentives may be offered to encourage individual development.

In 2016, the Company has standardized a three-tier training framework for new staff members and has concretely carried out the trainings. The subjects, hours and assessment methods of the three-tier training framework are clearly stated, and safety training materials and examination questions are drafted according to the job nature of employees. New employees are required to attend the trainings and pass the examination before taking on the job.

FINAL DIVIDEND

The Board has resolved to declare a final dividend for the year ended 31 December 2016 which is subject to consideration and approval at the Company's AGM. Please refer to Note 33 of the financial statements included in this announcement for details of the final dividend.

SHARE CAPITAL

As at 31 December 2016, the share capital of the Company was as follows:

Number of shares issued: 2,253,204,500 shares.

PURCHASE, SALE OR REDEMPTION OF SHARES

From 1 January 2016 to 31 December 2016, the Company or its subsidiaries did not redeem any of its shares. During the Year, neither the Company nor any of its subsidiaries purchased or sold any listed securities of the Company.

CAPITAL COMMITMENTS

As at 31 December 2016, the Company had capital commitment of approximately RMB476 million (31 December 2015: approximately RMB293 million).

CONTINGENT LIABILITIES

Please refer to Note 25 of the financial statements included in this announcement for details of contingent liabilities.

ENVIRONMENTAL PROTECTION AND SOCIAL SECURITY

During the reporting period, the Company had no significant environmental protection or social security issues.

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

WANG, NIAN-QIANG

Mr. Wang, born in 1964, Chinese national with no right of abode overseas, master's degree holder, engineer. Mr. Wang graduated from Central South University of Technology (中南工業大學) (now the Central South University) in the People's Republic of China in 1987 with a bachelor's degree majoring in industrial analysis. In 2011, he obtained a master's degree in MBA from China Europe International Business School. Mr. Wang worked at Anhui Tongling Institute of Non-ferrous Metals (安徽銅陵有色金屬公司研究院) as an engineer. He joined Shenzhen BYD Battery Company Limited (深圳市比亞迪實業有限公司) ("BYD Industries", renamed as BYD Company Limited on 11 June 2002) in February 1995 as a chief engineer. He joined the Group in April 2015 and is chief executive officer and executive director of the Company and a director of BYD Charity Foundation.

WANG, BO

Mr. Wang Bo, born in 1972, Chinese national, bachelor's degree holder. Mr. Wang graduated from the Harbin Institute of Technology (哈爾濱工業大學) with a bachelor's degree in engineering specializing in electrochemical engineering in 1993. Mr. Wang worked as an assistant engineer at No. 18 Tianjin Institute of Power Sources (天津電源研究所第十八研究院), a senior quality engineer and resource development manager at Motorola (China) Ltd. (摩托羅拉中國有限公司). Mr. Wang joined BYD Industries in September 2001 and is mainly responsible for marketing and sales. He has focused on marketing and sales of the Group and the day-to-day management of the commercial and customer service aspects of our business since our listing on the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). He has been appointed as an Executive Director of the Company since 3 January 2017.

NON-EXECUTIVE DIRECTORS

WANG, CHUAN-FU

Mr. Wang Chuan-fu, born in 1966, Chinese national with no right of abode overseas, master's degree holder, senior engineer. Mr. Wang graduated from Central South University of Technology (中南工業大學) (currently known as Central South University) in 1987 with a bachelor's degree majoring in metallurgy physical chemistry, and then graduated from Beijing Non-Ferrous Research Institute (北京有色金屬研究總院) in the PRC in 1990 with a master's degree majoring in metallurgy physical chemistry. Mr. Wang held positions as vice supervisor in Beijing Non-Ferrous Research Institute, general manager in Shenzhen Bi Ge Battery Co. Limited (深圳市比格電池有限公司). In February 1995, he founded BYD Industries with Mr. Lv Xiang-yang and took the position of general manager. He has been a non-executive Director and Chairman of the Company since December 2007 and now serves as the Chairman, an executive director and the President of BYD Company Limited ("BYD Group"), a director of Shenzhen DENZA New Energy Automotive Co., Ltd. (深圳騰勢新能源汽車有限公司) (formerly known as Shenzhen BYD Daimler New Technology Co. Ltd. (深圳比亞迪戴姆勒新技術有限公司)), the vice chairman of Shenzhen Pengcheng Electric Automobiles Renting Co., Ltd. (深圳市鵬程電動汽車出租有限公司), a director of BYD Auto (Tianjin) Co., Limited (天津比亞迪汽車有限公司), the chairman of Shengshi Xindi Electronic Vehicles Services Co., Ltd (盛世新迪電動汽車服務有限公司), an independent director of Renren Inc., a director of South University of Science and Technology of China (南方科技大學) and a director of BYD Charity Foundation.

Mr. Wang, being a technology expert, enjoyed special allowances from the State Council. In June 2003, he was awarded Star of Asia by BusinessWeek. He was awarded with "Mayor award of Shenzhen in 2004" (二零零四年深圳市市長獎), "The 2008 CCTV Man of the Year China Economy Innovation Award", Southern Guangdong Meritorious Service Award (南粵功勳獎) in 2011, Zayed Future Energy Prize Lifetime Achievement Award (札耶德未來能源獎個人終身成就獎) in 2014 and "China Best Leaders Award" (中國最佳商業領袖) in 2015, etc.

WU, JING-SHENG

Mr. Wu Jing-sheng, born in 1963, Chinese national with no right of abode overseas, master's degree holder. Mr. Wu graduated from Anhui Normal University (安徽省師範大學) in 1988 majoring in Chinese language. He took part in National Examination for Lawyers (全國律師統考) and obtained qualification as a lawyer granted by the Department of Justice of Anhui Province (安徽省司法廳) in 1992. Mr. Wu also passed the National Examination for Certified Public Accountants (註冊會計師全國統考) and obtained qualification as a PRC Certified Public Accountant in 1995. In July 2006, he graduated from Guanghua School of Management of the Peking University (北京大學光華管理學院) with an MBA. Mr. Wu worked at Guangzhou Youngy Investment & Management Group Company Limited (廣州融捷投資管理集團有限公司) and was responsible for finance and related duties. He joined BYD Industries in September 1995 as its financial manager. He has been appointed as a non-executive Director of the Company since March 2007, a senior vice president and chief financial officer of BYD Group, a director of Tibet Shigatse Zhabuye Lithium High-Tech Co., Ltd. (西藏日喀則紮布耶鋰業高科技有限公司), a supervisor of Qianhai Insurance Trading Center (Shenzhen) Co., Limited (前海保險交易中心(深圳)股份有限公司), the chairman of Shenzhen BYD International Financial Leasing Co., Ltd (深圳比亞迪國際融資租賃有限公司), a director of Shenzhen Shendianneng Electricity Co., Ltd. (深圳市深電能售電有限公司), the chairman of Shenzhen Didi New Energy Automobiles Renting Co., Ltd. (深圳市迪滴新能源汽車租賃有限公司), the chairman of BYD Auto Finance Company Limited (比亞迪汽車金融有限公司), the chairman of Energy Storage Power Station (Hubei) Co., Ltd. (儲能電站(湖北)有限公司), the director of Shenzhen Easy Charging Technology Co., Ltd (深圳市充電易科技有限公司), the chairman of Nanjing Zhongbei Didi New Energy Automobiles Renting Service Co., Ltd. (南京中北迪滴新能源汽車租賃服務有限公司), the Executive Director, general manager of Hangzhou BYD Automobiles Renting Co., Ltd. (杭州比亞迪汽車租賃有限公司) and a director of BYD Charity Foundation.

INDEPENDENT NON-EXECUTIVE DIRECTORS

CHUNG, KWOK MO JOHN

Mr. Chung Kwok Mo John, born in 1969, Chinese national, permanent resident of the Hong Kong Special Administrative Region. Mr Chung obtained a Bachelor of Economics degree from Macquarie University, Australia in 1992 and is also a member of Hong Kong Institute of Certified Public Accountants and CPA Australia, with over 20 years of experience in auditing, financial management and corporate finance. Mr. Chung was an auditor in an international accounting firm from 1992 to 1999. From 2000, Mr. Chung had held several senior management positions, including chief financial officer, executive director and independent non-executive director, in a number of listed companies in Hong Kong.

Mr. Chung has joined the Group as an independent non-executive Director of the Company since 7 June 2013. In addition, he is an independent non-executive director of Zhengye International Holdings Company Limited, a listed company on the Stock Exchange (Stock Code: 3363).

ANTONY FRANCIS MAMPILLY

Mr. Mampilly, born in 1950, United States national, master's degree holder. Mr. Mampilly obtained a bachelor's degree and a master's degree in physics from Kerala University, India in 1970. Mr. Mampilly worked at Motorola, Inc. where he held positions as general manager of the Energy Systems Group, general manager of the auto electronics business, corporate vice president and chief procurement officer. He joined the Group in November 2007 and is an independent non-executive Director of the Company.

QIAN, JING-JIE

Mr. Qian Jing-jie, born in 1982, Chinese national without right of abode overseas, bachelor's degree holder. Mr. Qian graduated from Monash University in Australia and completed his undergraduate studies in finance in 2006. Since 2006, he has been working at Shenzhen Kind Care Group Co., Ltd. (深圳一德集團有限公司) and is a director and an assistant to the president thereof. Mr. Qian has extensive experience in business management. He has been an independent non-executive Director of the Company since 27 April 2015.

SENIOR MANAGEMENT

DONG, GE-NING

Mr. Dong Ge-ning, born in 1972, Chinese national with no right of abode overseas, bachelor's degree holder. Mr. Dong graduated from Southwest Agricultural University (西南農業大學) with a bachelor's degree in engineering specializing in agricultural mechanization in 1993. Mr. Dong held positions as engineer, plant manager at Zhanjiang Agricultural Reclamation No. 2 Machinery Factory (湛江農墾第二機械廠) and worked at Foxconn International Holdings Limited where he was responsible for product development. Mr. Dong joined the BYD Group in March 2003 and now serves as a general manager of Division 3 and Moulding Center of the Group and is responsible for a number of areas including development of new products, project management, the research and development, design and production of moulds.

ZHOU, YA-LIN

Ms. Zhou Ya-lin, born in 1977, Chinese national with no right of abode overseas, bachelor's degree holder. Ms. Zhou graduated from Jiangxi University of Finance and Economics (江西財經大學) with a bachelor's degree in economics in 1999. Ms. Zhou joined BYD Group in March 1999 and has been appointed as the Chief Financial Officer of the Company since January 2016 and now also serves as the chief accountant of BYD Group, a director of Shenzhen BYD Electric Vehicles Investment Co., Ltd. (深圳比亞迪電動汽車投資有限公司), a director of Shenzhen Dicheng New Energy Co., Ltd. (深圳迪程新能源有限公司), a director of Shenzhen Qianhai Green Transportation Co., Ltd. (深圳市前海綠色交通有限公司), a supervisor of Shenzhen BYD International Financial Leasing Co., Ltd (深圳比亞迪國際融資租賃有限公司), a director of BYD Auto Finance Company Limited (比亞迪汽車金融有限公司), a supervisor of Hangzhou West Lake BYD New Energy Automobiles Co., Ltd. (杭州西湖比亞迪新能源汽車有限公司), a supervisor of Beijing Hualin Special Vehicle Co., Ltd (北京華林特裝車有限公司), a supervisor of Xi'an Chengtou Yadi Automobiles Service Co., Ltd. (西安城投亞迪汽車服務有限責任公司), a supervisor of Shenzhen Eastern Metro Transportation Co., Ltd. (深圳市東部軌道交通有限公司), a director of Qinghai Salt Lake BYD Resources Development Co., Ltd (青海鹽湖比亞迪資源開發有限公司) and a supervisor of BYD Charity Foundation, etc.

LI, QIAN

Mr. Li Qian, born in 1973, Chinese national with no right of abode overseas, master's degree holder. Mr. Li graduated from Jiangxi University of Finance and Economics (江西財經大學) with a bachelor's degree in economics in 1997. In July 2016, he obtained an MBA from Guanghua School of Management of Peking University (北京大學光華管理學院). Mr. Li worked as an auditor and business consultant at PwC China and Arthur Andersen and served as a representative of securities affairs at ZTE Corporation (中興通訊股份有限公司). Mr. Li joined BYD Group in August 2005 and has been nominated as a joint company secretary of the Company since November 2007 and now also serves as a secretary to the board of directors and a company secretary of BYD Company Limited (Stock Code: 01211) and a supervisor of Tibet Shigatse Zhabuye Lithium High- Tech Co., Ltd (西藏日喀則紮布耶鋰業高科技有限公司).

CHEUNG, HON-WAN

Mr. Cheung Hon-wan, born in 1956, Chinese national, permanent resident of the Hong Kong Special Administrative Region, master's degree holder. Mr. Cheung obtained a master degree in accounting and finance from the University of Lancaster in the United Kingdom in 1983. He is also a member of the Hong Kong Institute of Certified Public Accountants. Mr. Cheung worked at various Hong Kong listed companies and served as a qualified accountant of the Company. He joined the Group in June 2007 and is a joint company secretary of the Company.

The Board of Directors believes that good corporate governance is an essential element in enhancing the confidence of current and potential shareholders, investors, employees, business partners and the community as a whole. To this end, we strive to promote and uphold the highest standard of corporate governance.

The Company has put in place corporate governance practices to comply with all the applicable provisions and most of the recommended best practices of the Corporate Governance Code (the "Code") since the shares of the Company commenced listing on the main board of the Stock Exchanges.

In the opinion of the Directors, the Company had complied with the applicable code provisions as set out in Appendix 14 of the Listing Rules during the Year, except for deviation from code provision A.6.7. Code provision A.6.7 stipulates that independent non-executive Directors and non-executive Directors should attend general meetings. Due to important business engagements at the relevant time, not all independent non-executive Directors and non-executive Directors attended the annual general meeting of the Company held on 6 June 2016.

BOARD OF DIRECTORS

Accountable to the Shareholders, the Board of Directors is collectively responsible for formulating the strategic business direction of the Group and setting objectives for management, overseeing its performance and assessing the effectiveness of management strategies. The Board is also responsible for, and has during the Year performed, the corporate governance duties set out in the terms of reference in code provision D.3.1 of the Code (including the determining of the corporate governance policy of the Company).

THE DIRECTORS

As of the date of this report, the Board comprises seven Directors. There are two executive Directors, two non-executive Directors and three independent non-executive Directors. Brief biographical details outlining each individual Director's range of specialist experience and suitability of the successful long-term running of the Group are set out on pages 12 to 13 of this annual report.

The Group believes that its executive Directors and non-executive Directors composition are well balanced with each Director having sound knowledge, experience and/or expertise relevant to the business operations and development of the Group. All Directors are aware of their collective and individual responsibilities to the Shareholders and have exercised their duties with care, skill and diligence, contributing to the successful performance of the Group for the year under review.

The Company has received from each of the independent non-executive Directors an annual confirmation of his independence as required under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The Company considers all independent non-executive Directors to be independent.

The Board held seven meetings during this year to discuss the Group's overall strategy, operation and financial performance. The Board also ensures that it is provided in a timely manner with all necessary information to enable it to discharge its duties. All Board meetings adhere to a formal agenda in which a schedule of matter is specifically addressed to the Board for its discussion. Topics discussed at these Board meetings include: overall strategy; quarterly, interim and annual results; recommendations on Directors' appointment(s); the Board Diversity Policy; approval of connected transactions; regulatory compliance; and other significant operational and financial matters.

The Directors decide on corporate strategies, approve overall business plans and supervise the Group's financial performance, management and organization on behalf of the shareholders. Specific tasks that the Board delegates to the Group's management included the preparation of annual, interim and quarterly accounts for the Board's approval before public reporting; the implementation of various strategies approved by the Board; the monitoring of operating budgets; the implementation of internal control procedures; and the ensuring of compliance with relevant statutory requirements and other rules and regulations. The Directors acknowledge their responsibility for preparing all information and representations of the financial statements of the Company for the year ended 31 December 2016.

Each of the non-executive Directors and independent non-executive Directors of the Company entered into a letter of appointment with the Company for a term of three years respectively and in each case, either the Company or the relevant Director can give three months' prior notice at any time to terminate the appointment without payment of compensation, and the appointments are subject to the provisions of retirement and rotation of Directors under the Articles of the Company.

In accordance with Article 106 of the Company's Articles of Association (the "Articles") at each annual general meeting, one-third of the Directors, or if their number is not three (3) or a multiple of three (3), the number which is nearest to and is at least one-third, shall retire from office by rotation at least every three (3) years. According to Article 111 of the Articles, a director appointed by the Board to fill a vacancy shall retire at the next following general meeting. A retiring director shall be eligible for re-election. Accordingly, Mr. Wang Nian-qiang, Mr. Wang Bo, Mr. Wu Jing-sheng and Mr. Qian Jing-jie, shall retire by rotation, and it is proposed that Mr. Wang Nian-qiang, Mr. Wang Bo, Mr. Wu Jing-sheng and Mr. Qian Jing-jie, shall be eligible for re-election at the forthcoming annual general meeting.

CONTINUOUS PROFESSIONAL DEVELOPMENT OF DIRECTORS

Newly appointed Directors of the Company will be provided with relevant induction materials to assist them to fully understand their duties as a director under the requirements of the relevant laws and regulations, such as the Listing Rules. This will also help the Directors to gain insights in the Company's business and operation. In order to ensure adequate performance of duties by the independent non-executive Directors, the Company will also arrange on-site visits and sufficient communication with the management for the independent non-executive Directors. Pursuant to the corporate governance requirements, the Directors should participate in continuous professional development programme to develop and update their knowledge and skills. The particulars of the trainings of each Director are as follow:

Name of Director	Training/ seminars participated	Reading materials
Executive Director*		
WANG Nian-qiang	✓	✓
SUN Yi-zao (resigned as a Director with effect from 3 January 2017)	✓	✓
Non-executive Director		
WANG Chuan-fu	✓	✓
WU Jing-sheng	✓	✓
Independent Non-executive Director		
CHUNG Kwok Mo John	✓	✓
Antony Francis MAMPILLY	✓	✓
QIAN Jing-jie	✓	✓

* Mr. WANG Bo was appointed as an executive Director with effect from 3 January 2017. Accordingly, his training records have not been included above.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The posts of chairman and chief executive are held separately by Mr. Wang Chuan-fu and Mr. Wang Nian-qiang respectively. This segregation ensures a clear distinction between the chairman's responsibility to manage the Board and the chief executive's responsibility to manage the Company's business.

BOARD MEETINGS

To ensure the highest attendance of Directors, written notices are sent to all Directors 14 days before a regular board meeting. The meeting agenda is set in consultation with members of the Board. The Board held seven meetings in 2016. The attendance of individual Directors at the Board meetings as well as general meetings in 2016 is set out below:

Member of the Board*	Board meetings	Annual General Meeting
WANG Nian-qiang	7/7	1/1
SUN Yi-zao (resigned as a Director with effect from 3 January 2017)	7/7	0/1
WANG Chuan-fu	7/7	1/1
WU Jing-sheng	7/7	0/1
CHUNG Kwok Mo John	7/7	1/1
Antony Francis MAMPILLY	7/7	0/1
QIAN Jing-jie	7/7	1/1

* Mr. WANG Bo was appointed as an executive Director with effect from 3 January 2017.

In furtherance of good corporate governance, the Board has set up a number of committees, including:

- the Audit Committee;
- the Remuneration Committee; and
- the Nomination Committee

Each Committee reports regularly to the Board of Directors, addressing major findings with valuable recommendations for the decision making of the Board of Directors. The particulars of these Committees are set out hereunder.

AUDIT COMMITTEE

The Company has established an Audit Committee in compliance with Rule 3.21 of the Listing Rules. The primary duties of the Audit Committee will be to review and supervise our financial reporting process and risk management and internal control systems and to provide advice and comments to the Board of Directors. As of the date of this report, the Audit Committee consists of five members, namely Mr. WANG Chuan-fu, Mr. WU Jing-sheng, Mr. CHUNG Kwok Mo John (chairman), Mr. Antony Francis MAMPILLY and Mr. QIAN Jing-jie, of whom Mr. CHUNG Kwok Mo John, Mr. Antony Francis MAMPILLY and Mr. QIAN Jing-jie are independent non-executive Directors of the Company and among them, Mr. CHUNG Kwok Mo John has appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10 of the Listing Rules.

The terms of reference of the Audit Committee follow the guidelines set out by the Hong Kong Institute of Certified Public Accountants and is published on the websites of Stock Exchange and the Company pursuant to Code C.3.4.

The Company established the Audit Committee on 29 November 2007 and has held four meetings during the Year to review the audited consolidated financial statements of the Group for the year ended 31 December 2015 and the unaudited consolidated financial statements for the three months ended 31 March 2016, the six months ended 30 June 2016, the nine months ended 30 September 2016 and the effectiveness of the financial reporting process and risk management and internal control systems of the Company. The individual attendance of its members of the meetings is set out as follows:

Member of the Audit Committee	No. of Committee meetings attended	Attendance rate
WANG Chuan-fu	4	100%
WU Jing-sheng	4	100%
CHUNG Kwok Mo John	4	100%
Antony Francis MAMPILLY	4	100%
QIAN Jing-jie	4	100%

REMUNERATION COMMITTEE

The Company has also set up a remuneration committee on 29 November 2007 which currently consists of five Directors of the Company, namely Mr. WANG Nian-qiang, Mr. WANG Chuan-fu, Mr. CHUNG Kwok Mo John, Mr. Antony Francis MAMPILLY and Mr. QIAN Jing-jie (chairman), of which Mr. CHUNG Kwok Mo John, Mr. Antony Francis MAMPILLY and Mr. QIAN Jing-jie are independent non-executive Directors of the Company, as of the date of this report. The Remuneration Committee considers and makes recommendation to the Board regarding the policy and structure on remuneration and other benefits paid by the Company to the Directors, Senior Management and Staff, assesses the performance of executive Directors, and (with delegated responsibility) approves the terms (including terms on remuneration packages) of the executive Directors' service contracts. The remuneration of all Directors, Senior Management and Staff is subject to regular monitoring by the Remuneration Committee to ensure that levels of their remuneration and compensation are appropriate. The Remuneration Committee has performed the above duties during the Year. The Company held one meeting during the Year and the individual attendance of its members of the meetings is set out as follows:

Member of the Remuneration Committee	No. of Committee meetings attended	Attendance rate
WANG Nian-qiang	1	100%
WANG Chuan-fu	1	100%
CHUNG Kwok Mo John	1	100%
Antony Francis MAMPILLY	1	100%
QIAN Jing-jie	1	100%

The terms of reference of the Remuneration Committee is published on the websites of Stock Exchange and the Company pursuant to Code B.1.3.

REMUNERATION POLICY FOR DIRECTORS

The primary goal of the Group's remuneration policy for executive Directors is to enable the Company to retain and motivate executive Directors by linking their compensation to their individual performance as measured against the corporate objectives and the Group's operating results and taking into account the comparable market conditions. The principal elements of the remuneration package of executive Directors include basic salary and discretionary bonus.

The Company reimburses reasonable expenses incurred by Directors in the course of their carrying out of duties as Directors. Directors do not participate in decisions on their own remuneration.

REMUNERATION OF SENIOR MANAGEMENT

Remuneration by bands	Number of senior management*
RMB0 to RMB1 million	3
RMB1 million to RMB2.5 million	3

* The above table included former senior management, Mr. Wang Bo, who was appointed as an executive Director with effect from 3 January 2017; and Mr. Wang Jiang, who resigned on 1 December 2016.

The emoluments paid to each Director and the senior management of the Company for the year ended 31 December 2016 are set out in note 28 to the financial statements.

NOMINATION COMMITTEE

The Company established our Nomination Committee on 29 November 2007. The primary duties of our Nomination Committee are to make recommendations to the Board regarding candidates to fill vacancies on the Board. The Nomination Committee also reviews the structure, size and composition of the Board annually, assesses the independence of independent non-executive Directors, and determines the policy for the nomination of Directors. As of the date of this report, the Nomination Committee comprises five members, namely Mr. WANG Bo, Mr. WANG Chuan-fu (chairman), Mr. CHUNG Kwok Mo John, Mr. Antony Francis MAMPILLY and Mr. QIAN Jing-jie, of which Mr. CHUNG Kwok Mo John, Mr. Antony Francis MAMPILLY and Mr. QIAN Jing-jie are independent non-executive Directors of the Company as of the date of this report. The Nomination Committee has performed the above duties during the Year.

THE BOARD'S DIVERSITY POLICY

The Board has adopted the Diversity Policy, which sets out the approach to diversity of Board members. In determining the Board composition, the Board and the Nomination Committee consider a range of diversity elements, including but not limited to gender, age, cultural and education background, professional experience, skills and knowledge. All appointments of the Board will be made based on merit and objective criteria while taking into full account of the interest of Board's diversity.

The selection of candidate will be based on a range of diversity elements. The final decision will be made according to the strengths of the candidate and his/her contribution that would bring to the Board.

The Company held one meeting during the Year and the individual attendance of its members of the meetings is set out as follows:

Member of the Nomination Committee	No. of Committee meetings attended	Attendance rate
SUN Yi-zao (resigned as a Director with effect from 3 January 2017)	1	100%
WANG Chuan-fu	1	100%
CHUNG Kwok Mo John	1	100%
Antony Francis MAMPILLY	1	100%

The terms of reference of the Nomination Committee is published on the websites of Stock Exchange and the Company pursuant to Code A.5.3.

INDEPENDENT INTERNATIONAL AUDITOR AND THEIR REMUNERATION

For the year ended 31 December 2016, the total remuneration paid and payable by the Company to the independent international auditor, Ernst & Young, were RMB1,340,000 for audit services. The audit fee was approved by the Board. During the reporting period, the total remuneration in respect of the non-audit services was RMB250,000.

Item	2016	2015
Review of interim results	RMB250,000	RMB249,000
Other non-audit services	RMB0	RMB0

The re-appointment of Ernst & Young as the Company's independent international auditor for the Year 2017 has been recommended and endorsed by the Board and is subject to approval by shareholders at the forthcoming annual general meeting. There was no disagreement between the Board and the Audit Committee on the selection and reappointment of the external auditor during the Year.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board confirms its responsibility for risk management and internal control, and for reviewing their effectiveness through the Audit Committee at least annually. The Audit Committee assists the Board in performing its responsibilities for supervision and corporate governance, covering financial, operational, compliance, risk management and internal control functions of the Company.

Various measures have been designed for safeguarding assets against unauthorized use or disposition; for maintaining proper accounting records and for the reliability of financial information used within the business or for publication. The Company's systems of risk management and internal control are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material errors, losses or fraud. The Board considers that the Company is fully compliant with the provisions of risk management and internal control as set forth in the Corporate Governance Code.

RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK

The Company's risk management system is composed of well-established organizational structure as well as all-rounded policies and procedures. Responsibilities of each business and functional department are clearly defined to ensure effective balance. The Company's risk management and internal control structure comprises of:

BOARD OF DIRECTORS

- Evaluating and determining the nature and magnitude of the risks to be assumed by the Company, to achieve its business and strategic goals;
- Ensuring that the Company has established and maintained appropriate and effective risk management and internal control system;
- Supervising the designing, implementation and inspection of the risk management and internal control system by the management team.

AUDIT COMMITTEE

- Assisting the Board in performing its duties of risk management and internal control systems;
- Supervising the Company's risk management and internal control system on an ongoing basis, to provide opinions and suggestions with regard to the improvement of the risk management and internal control systems;

- Reviewing the effectiveness of the Company's risk management and internal control systems at least once a year;
- Ensuring that the Company has sufficient resources, staff qualifications and experiences in accounting, internal audit and financial reporting functions.

MANAGEMENT TEAM

- Designing, implementing and inspecting the risk management and internal control systems;
- Identifying, evaluating and managing risks that may exert potential impacts on major operational procedures;
- Responding to and following up with in a timely manner with regard to the investigation results of risk management and internal control issues raised by the Internal Audit Department;
- Providing opinions to the Board and the Audit Committee on the acknowledgment of the effectiveness of the risk management and internal control systems.

INTERNAL AUDIT DEPARTMENT

- Reviewing the due effectiveness of the Company's risk management and internal control systems;
- Reporting the audit results and making suggestions to the Audit Committee, to improve major drawbacks of the systems or finding the deficiency of the control.

IDENTIFICATION, EVALUATION AND MANAGEMENT OF MAJOR RISKS

The management team and relevant staff identify risks that may exert potential impacts on the Company and its operation, and evaluate risks in environment and process of the control. Through comparison of the risk appraisal results and risk prioritization, risk management strategies and internal control procedures are determined to prevent, avoid or reduce risks.

Major risks and related control measures are reviewed and upgraded on an ongoing basis to ensure proper internal control procedures in place. Based on the testing results, persons in charge confirm with the Senior Management that internal control measures have played their roles as expected, their weakness identified in the control have been corrected, and risk management policies and internal control procedures have been revised, in the event of any major changes. The Board and the Audit Committee supervise the control activities of the management team to ensure the effectiveness of the control measures.

ANNUAL REVIEW

In 2016, the Board reviewed the soundness and effectiveness of the Group's risk management and internal control systems, with an self-evaluation report issued on the internal control. In addition, the Company retained an auditor to audit the effectiveness of the internal control related to the Company's financial reports, and to provide independent and objective assessment and suggestions in the form of auditor's report. The Board considers that the Company's risk managements and internal control systems are effective and adequate.

INTERNAL AUDIT

The Group has an Audit Department which, equipped with independent internal audit system, plays an important role in the Group's risk management and internal control framework. The Audit Department reports directly to the Audit Committee. Major audit findings will be reported on timely basis. Based on its consideration, the Audit Committee will provide advices to the Board and the Senior Management, with subsequent measures taken to review the implementation of the rectification and improvement plans.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") contained in Appendix 10 of the Listing Rules as the Company's code of conduct regarding securities transactions by its Directors. Having made specific enquiry, all Directors complied with their obligations under the Model Code regarding their securities transactions during the Year.

Specified individuals who are likely to be in possession of inside information of the Group are also subject to compliance with the Model Code. No incident of non-compliance was noted by the Company in 2016.

DISCLOSURE OF INSIDE INFORMATION

The Group has put in place a set of policy for the disclosure of inside information which sets out the procedures and internal controls for the handling and dissemination of inside information in a timely manner and in compliance with the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong). The policy and its effectiveness are subject to review on a regular basis.

SHAREHOLDERS' RIGHTS

Under the Company's Articles of Association and the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) ("Hong Kong Companies Ordinance"), the Directors shall, on the requisition of members of the Company holding at the date of the deposit of the requisition not less than 5% of the total voting rights of all members having the right to vote at general meetings of the Company, forthwith proceed duly to convene an extraordinary general meeting of the Company. The request, which must state the general nature of the business to be dealt with at the meeting, may be sent to the Company in hard copy form or in electronic form and must be authenticated by the Shareholder(s) making it.

Further, Shareholders representing at least 2.5% of the total voting rights of all the members having a right to vote, or, at least 50 Shareholders who have a relevant right to vote, may put forward proposal at general meeting; and circulate to other shareholders written statement with respect to matter to be dealt with or other business to be dealt with at general meeting. For further details on the shareholder qualifications, and the procedures and timeline, in connection with the above, shareholders are kindly requested to refer to Sections 580 and 615 of the Hong Kong Companies Ordinance.

To safeguard shareholders' rights, the Company adopts the policy of voting by poll for all resolutions put forward at any shareholders' meetings.

Shareholders may send their enquiries requiring the Board's attention to the Company Secretary at the Company's principal place of business in Hong Kong. Other general enquiries can be directed to the Company through our Investor and Media Relations Consultant, whose contact information is disclosed in "Corporate Information" of this annual report.

INVESTOR RELATIONS

The Company believes that effective communication with the investors is essential for enhancing investors' knowledge and understanding of the Company. To achieve this, the Company pursues a proactive policy of promoting investor relations and communication. The main purpose of the Company's investor relations policy, therefore, is to enable investors to have access, on a fair and timely basis, to information that is reasonably required for making the best investment decisions.

Committing to corporate social responsibility is the prerequisite for any company to develop sustainably. By undertaking social responsibilities, to a reasonable extent, companies are able to bring a significant, positive impact to their corporate image, while at the same time strengthen brand awareness and effectively improve corporate competitiveness. The company takes the initiative to fulfill its social responsibilities in the course of its development, adheres to the principles of sustainable development, and remains steadfast to care for people and protect the environment. The Company's devotion to social responsibilities is embodied in every part of the supply chain where it operates, while its life-cycle management is conducted in a closed-loop feedback mechanism to ultimately create a highly-efficient, collaborative and mutually-beneficial supply chain platform. With this foundation, the Company will be able to carry through its social responsibilities. During the Year, the Company has established, continuously operated and updated its social responsibility management system through initiatives in the following aspects:

A. REPORT ON THE ENVIRONMENTAL ASPECT

Environmental protection is the premise of, and an important defense to safeguard the healthy development of the Company. As such, the Company continues to focus on realizing the promises engraved in its environmental policies, so as to ensure compliance with regulations, avoid pollution and reduce the impacts of its businesses on the environment. The Company has the highest regard to the environment, it advocates environmental protection and strictly complies with the laws, regulations and standards set by the nation. Also, the Company actively takes into consideration the environmental impacts of its business decisions and activities, as well as strengthens the preventions and controls of hidden threats along its entire production process to protect the environment, with an ultimate goal to forge a harmonious relationship with the natural environment. In 2016, the Company has not incurred any material or aforementioned environmental pollution or ecological damage.

ASPECT A1: EMISSIONS

A1.1 Total greenhouse-gas emissions

In view of the global concerns on climate change, the Company has taken the initiative to reduce carbon consumption and adopt carbon sequestration in accordance with the relevant requirements governing the reduction of greenhouse-gas emissions, so as to join hands with the community to combat climate change. In 2016, the total volume of greenhouse gases emitted by the Company was approximately 0.4377 million tons of carbon dioxide (calculation based on the consumption of diesel, natural gas and electricity).

A1.2 Discharge of hazardous waste

The Company has reduced the emissions of air, land and water pollutants through identifying, evaluating and managing wastes resulted from the production process. All hazardous wastes generated by the Company are transferred to and handled by qualified hazardous-waste processing companies, while the sewage from its production is discharged to the Company's sewage treatment station for processing. After treatment, the sewage will be disposed of if certain standards are met. In 2016, the volume of sewage treated and released was approximately 552,806 tons.

In 2016, the total amount of hazardous solid wastes generated was approximately 16,303 tons, all were commissioned to and treated by environmental companies licensed to handle hazardous wastes.

A1.3 Discharge of non-hazardous waste

In 2016, the total amount of non-hazardous waste produced was about 57,066 tons, all were commissioned to and handled by companies approved by government departments. Materials are recycled in the production process to reduce waste, such as using plastic frames and recycled cabinets in the production of products.

A1.4 Emission-reduction measures and achievements

The Company has attained the following achievements in reducing the emission of greenhouse gases:

Case 1: Implemented green lighting, purchased 15,370 energy-saving LED lights in 2016.

Case 2: Established and used photovoltaic power plants, integrated electricity grid with the city grid (figure 1).

Figure 1: The use of photovoltaic power plants

Case 3: Implemented new-energy technological products – electric forklift, and gradually eliminated the use of oil-fuelled forklift (figure 2).

Figure 2: The use of electric forklift

ASPECT A2: RESOURCE CONSUMPTION

A2.1 Energy consumption

The Company uses diesel and natural gas as fuels. In 2016, the total amount of natural gas consumed was approximately 1,421,642 cubic meters, while the total amount of diesel consumed was approximately 1,320 liters. The total power consumption in 2016 was about 689,842,290KWH.

A2.2 Water resources consumption

The Company's goal of "improving the efficiency of water usage and attaining sustainability in the use of water resources" is reflected in all aspects of production and operations. For example, as the Company's usage of purified water is high and the huge amount of concentrated water from our water purifying system does not create any harm, such concentrated water can be used in different areas including mechanical polishing, dust elimination, acid fog purification, air conditioning and lavatories in order to save water. Upon calculation, annual usage of tap water amounts to approximately 2.30 million cubic meters, and with a proportion of 12%, 0.276 million cubic meters of concentrated water can be reused every year. The total amount of water consumed in 2016 was about 7,614,711 cubic meters.

A2.3 Energy conservation

The Company strives to reduce energy consumption, improve energy efficiency, and mitigate the pressure it brings to the environment as a result of its energy consumption. The Company implements energy-conservation and emission-reduction measures through three aspects, namely energy-saving management, energy-saving technologies and energy-saving structure. Under these initiatives, approximately 120 energy-saving technological transformation were carried out. In 2016, energy-saving technological transformation projects achieved an annual energy-saving of more than 2,395 standard tons of coal.

Case 1: In 2016, funding for special projects in achieving an energy-saving and recycling economy have been applied for successfully in Huizhou City, Guangdong Province, to replace the general quantitative pumping system with an injection molding machine servo control system, leading to an annual energy-saving amount of about 537.3 standard tons of coal.

Case 2: The energy-saving project using micro-oil-fuelled twin-screw air compressor was replaced with non-oil-fuelled centrifugal air compressor, leading to an annual energy-saving amount of about 814.6 standard tons of coal.

A2.4 Water resources conservation

The Company's water-reuse rate has surpassed 80% in 2016, which is achieved through water-processing management, using treated sewage and adopting water recycling technologies and measures. Meanwhile, seven obsolete gantry cleaning lines were eliminated and replaced with water-saving flat-panel cleaning lines and so on, so as to reduce the consumption of fresh water and save costs. In 2016, the Company saved about 230,000 cubic meters of water usage.

A2.5 Packaging materials of end-products

The Company used a total of about 21,289 tons of packaging materials for its end-products in 2016.

ASPECT A3: ENVIRONMENTAL AND NATURAL RESOURCES

Environmental Risk Management

The Company has implemented an environmental risk management system covering the whole process of its construction projects. The Company adopts the "three simultaneous" system regarding its environmental protection facilities and main constructions, namely "to design simultaneously", "to construct simultaneously", and "to commence operations simultaneously" on the facilities and constructions, so as to ensure environmental risks are under control. In addition, the Company has established an integrated environmental management system (EMS) and has obtained the ISO14001 certification for the system in 2003.

Cultural promotion

The Company is dedicated to forging a harmonious relationship between man and nature. Step by step, the Company exerts efforts to protect the surrounding environment, spread the message of environmental conservation and foster environmental awareness. The Company also promotes the concept of "green office" internally by posting labels, such as those carrying the message "take the lead to save energy" in prominent places. In June 2016, the Company organized an Environmental Day which was themed "cherish natural resources, change the mode of development – enhance efficiency on the use of resources".

Figure 3: Environment safety Q&A prize-giveaway

Figure 4: Environment safety competition

REPORT ON SOCIAL ASPECTS

ASPECT B1: EMPLOYMENT

Employees are the bedrock of the Company, they are the most valuable asset of the Company. Without the hard work of our employees, the Company would not have grown to the scale it is today. Therefore, the Company has adhered to a "people-oriented" approach to human resources management, it pays utmost respect to the rights of employees, emphasizes staff training, encourages technological innovation among staff members and strives to create a fair, just and open working and development environment for employees.

Equal employment opportunities

The Company upholds the principle of "equal opportunities, appointment by merit" in recruiting staff members. In the recruitment process, the Company eliminates any discrimination on age, gender, birthplace, nationality, customs, social rank, religion, physical disability, political affiliation and so on. The proportion of female employees in the Company's total number of employees remained largely stable at about 39%. In 2016, female managers accounted for 28% of the total number of managers. The Company employs 26 female senior managers, accounting for 17% of the total number of senior managers.

All employees of the Company are entitled to an employment contract at the start of their employment. The Company's resignation and dismissal polices adhere to the Company's employee handbook and the requirements under the relevant laws and regulations that have a significant impact on the Company in jurisdictions applicable to our employees.

Communication mechanism

The Company abides by the law in conducting its businesses, treasures the opinion of its staff, protects the rights of employees and has established proper channels for complaints. As such, the Company has in place a wide range of communication and complaint channels that operate as a whole, such channels include group discussion (figure 5), labor union, email, mailboxes, complaints hotlines and Wechat account. These channels form an organic communication mechanism between the Company and its staff. Meanwhile, in order to prevent the risk of non-compliant management practices and to create a more harmonious business environment, the Company has stepped up supervisory efforts in 2016 and posted up information about "complaint-handling channels and complaint-processing" within the Company, as well as increased the promotion of complaint-handling channels, so that complaints of employees can be effectively addressed.

Figure 5: group discussion

Compensation, benefits and employee protection

The Company has always abided by the relevant laws and regulations in relation to compensation, benefits and employee protection that have a significant impact on the Company, including "Labor Law of the People's Republic of China" and upholds the "people-oriented" approach in its businesses. It is also committed to equal employment opportunities and is determined to eliminate any form of discrimination in the workplace, to encourage employees to achieve their potentials and help employees realize their personal values while at the same time provide motivation to employees in the forms of tangible and intangible incentives, thereby enhance job satisfaction among employees.

The Company has developed a sound compensation management system in which staff bonuses are closely related to the Company's operating situations, the performance of the department the employee belongs to, and the employee's personal performance. To maximize the protection on employees' rights and benefits, the Company reviews and amends the remuneration system annually.

The Company encourages employees to achieve personal growth that is in line with their own capabilities and personal interests. The Company has established channels of job promotions for its employees. The Company also continues to improve and implement the performance assessment mechanism, to guide managers at all levels to care for the growth and development of staff members, to enhance the effectiveness of performance management, and to grow the enterprise and employees at the same time.

The Company implements the national leave policies in accordance with the law, it ensures that employees are entitled to benefits such as sick leave, marriage leave, maternity leave, annual leave and so on. Employee compensations are paid in full in a timely manner. Meanwhile, in order to protect the social insurance benefits of employees, the Company has supplemented clear explanations about the applicable welfare items, scopes of application, payment standards and forms of payment of such benefits; pensions, healthcare payments, work injury payments, child-birth payments, unemployment insurance and housing provident funds are paid in full in a timely manner to employees in strict accordance with the law.

The Company has always been concerned about and committed to bettering the livelihood of employees. In this regard, the Company has made considerable efforts in different areas including housing, transportation, children's education and healthcare:

Dining: The Company has built staff canteens in industrial parks to ensure adequate nutritional intake among employees.

Accommodation: The Company has built staff quarters in industrial parks where employees can reside at a low cost.

Transportation: To make traveling easier for employees, the Company provides staff members with a daily shuttle bus service that operates in multiple shifts and lines. The Company also provides zero-deposit car-purchase benefits to employees in which subsidies are offered according to the car model the employee purchases. Meanwhile, the Company has in place professionally-installed chargers for employees who purchased new energy vehicles, employees are allowed to charge their cars for free at the Company.

Healthcare: The company has established and continuously improves the staff protection system. Employees' social insurance are paid for in strict accordance with the law. The Company has also set up a medical fund for the staff to add an extra layer of medical protection for employees.

ASPECT B2: HEALTH AND SAFETY

Occupational health and safety management system

The Company adopts the OHSAS 18001:2007 "Occupational Health and Safety Management System – Requirements" as a basis to learn from the management models of leading companies. By combining constructive proposals and concrete works, the Company has mapped out its management approach and goals in ensuring the occupational health and safety of staff, it has also developed a range of standards and management procedures, as well as an integrated occupational health and safety management system so that well-defined rules are laid out for everyone to follow, and everyone can shoulder their own responsibilities. In January 2007, the Company has obtained the OHSAS 18001: 2007 certification, which is a certification monitored and approved by the DNV certification company annually. The Company conducts internal audits on its occupational health and safety management system annually. In 2016, the Company has further strengthened its occupational health and safety management system, so that the system can be improved continuously.

Health at workplace

At the heart of the Company's production safety principles is to "always ensure the health and safety of employees". The Company is committed to providing a safe and healthy working environment for all employees, it strives to identify and assess the risk in production activities and in the procedures bringing products or services into place. The Company also assesses the magnitude of the risks and assigns rating to such risks to determine the areas with significant dangers, so as to avoid or reduce the occurrence of occupational accidents and ensure effective controls are implemented. In order to improve the working environment and to reduce the intensity of labor for workers, the Company has expedited the implementation of automation projects in 2016, such as the automation of stamping processes, CNC processes and grinding processes, the shift to automation in production has already achieved good results.

Safe production

The Company adheres to the principle of "safety first, emphasize precautionary measures, implement comprehensive controls", and relevant production safety and management rules are strictly implemented. "The manager bears the responsibility, implement a production safety accountability system at all levels" is the Company's adage, as such, production managers at all levels have signed a letter of responsibility governing production safety objectives, so as to facilitate the implementation of the accountability system, to prevent accidents and to ensure the safety of employees.

The "four NOs" principle is closely followed to eliminate production accidents. In order to prevent the recurrence of similar incidents, improvements were made focusing on the "tangible" aspects to ensure production is fundamentally safe. In 2016, the Company has not incurred any workplace death in its business.

In 2016, the Company has standardized a three-tier training framework for new staff members and has concretely carried out the trainings. The subjects, hours and assessment methods of the three-tier training framework are clearly stated, and safety training materials and examination questions are drafted according to the job nature of employees. New employees are required to attend the trainings and pass the examination before taking on the job.

In production safety inspections, hidden problems identified are reported while employees found to have violated regulations are educated and provided guidance. This has effectively curbed any violations of regulations in business instructions and operations. In 2016, the Company has designed and developed a system to rectify and track hidden problems, as well as a system to manage special documents, so as to achieve the real-time tracking and information-sharing regarding the rectification status of hidden problems.

In 2016, work safety assessment standards have been established and quarterly evaluations and assessments will be performed in different units to gauge the implementation of the standards. Units that have achieved outstanding results in the annual assessment will be awarded and recognized (figure 6).

Figure 6: 2016 environmental safety and energy saving annual award ceremony

Emergency management

The Company continuously improves the emergency management structure and strengthens the capacity of emergency relief insisting on the principle of "emergency preparation as priority, and integration of emergency preparation with emergency relief". The Company identifies and evaluates emergent conditions and events and minimizes the impact through emergency applications and emergency plans, so that hazards to people, environment and properties are kept to the minimum.

In 2016, the Company experienced Typhoon "Nida" on 31 July, Typhoon "Meranti" on 14 September and Typhoon "Haima" on 19 October. No accidents happened during the typhoon periods, as the Company promptly issued warnings in advance, formulated the emergency plans, implemented the typhoon accountability system, stepped up precautionary tasks, carried out patrol of dangerous regions, salvation and relief works.

LEVEL B3: DEVELOPMENT AND TRAINING

The Company continuously makes greater efforts in the training of talents insisting on the concepts of 'people-orientation' and 'production of talents before products'. We provide our employees with a wide range of systematic training, and endeavor to provide sufficient opportunities of training and promotion and create good career development platform to help employees bring into play personal potentials and fulfill personal growth and values. This also provides the Company with the talent support essential for sustainable development and breakthroughs.

The Company provides employees with induction training for new employees and training in preparation for promotion of junior talents. Tutor training course is also organized for the current batch of employees under the theme of "imparting, helping and leading" (figure 7). The aim is to better enhance employees' overall quality, increase efficiency and promote mutual development of the Company and individuals. In 2016, the Company organized more than 60,000 training sessions with approximately 59 training hours per capita.

Figure 7: Learners in lessons of the current tutor training course

LEVEL B4: LABOUR STANDARDS

Protection of child labour

Children represent hope of new life of the mankind. UNICEF promotes awareness for children and protects them from violence, abuse, exploitation and negligence – concerns commonly shared and similarly promoted by the Company. In order to sufficiently protect children's rights to education and physical/psychological development, the Company insists on running its business in compliance with the laws. Continuous efforts are made to improve and optimize the recruitment flow and fully perform the Company's social responsibilities to help children grow up healthily. The Company strictly observes relevant provisions about forbiddance of child labour in national laws and regulations and responsibilities required in the international community. The Company's "rules on the forbiddance of child labour" are disclosed through active external publicity. On the other hand, the rules are actively implemented besides specifying the terms of employment, formulating the identification system and relief measures for child labour.

Child labour relief

- Specify remedial measures
- Equipped with identity card scanner
- Judge with own experiences

Clear policies

- To formulate child labour management applications
- Internal and external publicity

Protection of freedom

The Company fully respects employees' freedom in terms of choice of employment, beliefs, assembly and personal privacy. The Company commits to refrain from employing any form of prison labour, indentured labour and bonded labour, and not to employ child labour. The Company also strictly forbids seizure of credentials, collection of money or objects as security, withholding of wages, surveillance, interception, body search, access restrictions or acts of forced labor in any form.

The BYD Electronic Young Run

The 1st Young Run was held in 2015 in commemoration of the Company's years of passion, solidarity, diligence and perseverance besides passing on and spreading the BYD Electronic's traditional spirits.

On 28 May 2016, the 2nd Young Run was held in the Julongshan Ecological Garden in Pingshan of Shenzhen. The event was participated by 37 teams with 1,285 runners and nearly 200 staff and volunteers.

Community activities

To provide opportunities for employees who love literature, photography and dance to show their talents, the Company has organized non-profit-making social bodies including reporters group, photographers association and dance association for internal employees, which provide training and photography and literature activities from time to time. They also perform in, take photo of and write articles on major activities of the Company.

OPERATING PRACTICES

LEVEL B5: SUPPLY CHAIN MANAGEMENT

Suppliers management

To better perform the corporate social responsibilities, the Company keeps a series of files, standards and regulatory systems in place. Besides, the Company manages its suppliers in strict accordance with the requirements:

1. In order to make known the Company's social responsibilities requirements to all its existing and potential suppliers, promote suppliers' greater commitment to social responsibilities, implement suppliers' certification and develop basis for operation risk analysis, the Company formulated the Requirements for Suppliers. The document lists in details all the standards and requirements set for suppliers in terms of corporate social responsibilities, quality control, environmental management, occupational health and safety, smart wealth right, materials management and production management. All suppliers are required to perform their social responsibilities.

2. In order to standardize requirements for development of social responsibility requirements of production material suppliers and their management, management of suppliers in various stages from engagement to improvement for close-looped management, build stronger image of suppliers as social responsibility performers, enhance suppliers' brand values and ensure normal and orderly operation of the Company's business, the Formula of Development, Evaluation and Management of Production Material Suppliers is compiled. The document clearly states the prerequisites of developable suppliers, criteria for supplier selection, evaluation and engagement flows, quality control of incoming materials, performance appraisals, ongoing improvement and management of supplier depot, etc. Corporate social responsibility is a major component in the document.

3. In order to further clarify social responsibility requirements for production and non-production material suppliers, projects and terms regarding social responsibility requirements in the flow of collection, evaluation, selection and development of supplier resources are included so as to guarantee that premium suppliers of great potential which meet the Company's social responsibility requirements are selected. The compilation of two documents was passed, namely Details for Development and Engagement of Production Material Suppliers for IT Industrial Cluster and Details for Development and Engagement of Non-Production Material Suppliers. The two documents state in details the timing for development of new suppliers, criteria for supplier selection, supplier resource collection and pre-review evaluation, and the flows for development and selection of suppliers. Besides guaranteeing product quality and cost reduction, they also ensure a stable supply source to achieve win-win situation for both parties under the premise of corporate social responsibility requirements.

4. The Company has compiled the files Details for Review Management of Production Materials Suppliers and Work Flow for Review of Non-Production Materials Suppliers for inclusion in the supplier review system. They specify a number of corporate social responsibility requirements, the review flow of newly developed suppliers and review flow of qualified suppliers. Corporate social responsibility module is one of the important components of the documents. A veto vote is provided under the corporate social responsibility module. The veto vote prevents any issues in breach of the labour law, and laws on the protection of women's and children's rights from being passed despite how many votes are obtained by other modules. Depending on the severity of breach, newly developed suppliers will not be allowed to cooperate with the Company, and those currently in cooperation with the Company will be disqualified. In the meantime, the documents specify and direct the auditing officers' audit work to ensure true and valid appraisal of corporate social responsibilities.

5. To effectively control corporate social responsibility requirements of the suppliers already in cooperation with the Company and their overall performance in other services, and effectively regulate routine procurement tasks, the Company has compiled the Details for Management of Performance Appraisal of Production Material Suppliers of IT Industrial Clusters, and Details for Performance Appraisal of Non-Production Material Suppliers. The documents specify the scope, frequency, principles, standards and flow for the appraisal. The corporate social responsibility is one of the major criteria of judgment along with scoring. The results will affect overall performance of a supplier.

6. To ensure that all products of the Company satisfy corporate social responsibility requirements and the international and domestic laws and regulations on HS (Hazardous Substance, 有害物質) or customers' HSF (Hazardous Substance Free, 有害物質減免) requirements, and attain the goal of protecting human survival environment and minimizing impact on ecological environment, the Company formulated the Management Standards for the Environmentally-controlled Substances which we sign with all our suppliers. Suppliers who refuse to sign shall be removed from the supply chain on compulsory basis. The standard specifies the environmental controlled substances of the components and materials to be used in all products of the Company. To cooperate with the Company, suppliers are required to submit information to prove compliance of their HSF, such as test reports from partner factories, table of product composition analysis, MSDS and ODC disclosure forms, etc. The Company employs the professional HSF team to review information to ensure that all components delivered to the Company satisfy the green environment requirements for prevention of toxic and hazardous substances from flowing into the Company.

Green procurement

In order to promote full performance of corporate social responsibilities, manifest the corporate culture of humanistic care, realize sustainable development of cost-effectiveness, and achieve the targets of energy saving, pollution reduction and environmental improvement, the Company insists on green procurement in the supply chain and raw material ends. The Company creatively established the green procurement system of "green suppliers, green raw materials" mainly in all regions, businesses and factories under direction of the Procurement Section of the Head Office. Various tasks of environmental management in the procurement activities are subject to its control to ensure that each component procured from external source satisfies the green environment requirements so that the social responsibility requirements effectively integrate with the products.

1. With the green procurement policy and approach in place, the Company requires all suppliers to sign the Protocol on Toxic and Hazardous Substances and Agreement on Corporate Social Responsibilities before cooperation. A management group on green procurement from suppliers is set up and the appraisal system for green procurement from suppliers is formulated. Suppliers are appraised annually for their performance in environmental protection. If suppliers have had any acts against the green practice or environmental protection in their production and operation activities, and environmental inefficiency report will be issued to demand for improvement. In serious cases, penalties are imposed in the form of fines or reduction of procurement share. Those involved in extraordinary serious breach will be disqualified.

2. In the course of product realization, the Company requires suppliers to use green materials in the pre-production design stage. In the interim pilot stage, the DfE (Design of Environment) survey is conducted on the raw materials to identify the primary raw material components of all products for checking. In the final stage of mass production, supervisory inspections are carried out on green materials to ensure that the Company's "green procurement" approach is fully implemented.

3. The Company advises all suppliers to obtain certification under the 14001 Environmental Management System, 18001 Occupational Health and Safety Management System, SA8000 Social Responsibility Standards, and other management systems and product certifications which assist in the performance of corporate social responsibilities. Control of front-end green procurements of suppliers and raw materials, to avoid the spread of pollution and wastage to the back end. By centrally including raw materials, work in process and end products in the loop management for organic dynamics between the suppliers, the Company and customers to genuinely fulfill full green process in the Company's production and operation activities, and honour the Company's commitment to the society and environment with excellent performance in green procurement.

4. Compulsory requirement of conflict materials: The Company conducts annual investigation on the source of metal materials for its products provided by the suppliers to confirm whether they satisfy the international requirements regarding places of origin (minerals from conflict-affected and high-risk areas). Each supplier shall prove that they understand and support the EICC-GeSI (Electronic Industry Code of Conduct – Global e-Sustainability Initiative, 電子行業行為準則－全球電子可持續發展推進協會) actions and do not knowingly procure conflict minerals from the Democratic Republic of Congo. At the start of every year, the SQE (Supplier Quality Engineer 供應商質量工程師) department identifies and compiles a list of suppliers subject to conflict minerals investigation according to attributes of relevant materials. CMRT (Conflict Minerals Reporting Template 無衝突物質表) will then be collected from suppliers on the list. If necessary, the resource developer shall provide SQE with contact details of the suppliers. Upon receipt of CMRT about suppliers, work will start to determine whether content of the Check CMRT satisfy the Company's requirements. Generally, suppliers on the list of conflict minerals investigation shall return the completed CMRT within 2 months (starting from the date of investigation letter from SQE). If the supplier indicates in the CMRT that tin, tantalum, tungsten and gold from regions of conflict minerals are used, the SQE shall send an official letter stating that the supplier has breached the EICC (Electronic Industry Code of Conduct, 電子行業行為準則) requirements and BYD Electronic's terms of corporate social responsibilities to the supplier, resource developer, SQE senior leadership and Platform Management Department of the Procurement Section requesting for immediate termination of cooperation with the supplier concerned. In the meantime, the supplier shall be demanded to submit a correction plan immediately. The entire plan shall be followed up, and the supplier shall be supervised to carry out the plan. Generally, the rectification period shall be restricted to 3 months. After the supplier has completed the rectification, if SQE determines that the supplier satisfies the EICC requirements and BYD's terms of corporate social responsibilities, engagement may be completed in accordance with the Details for Development and Engagement of Production Material Suppliers for IT Industrial Cluster. If the supplier fails to satisfy the requirements, SQE shall immediately request Platform Management Department of the Procurement Section to freeze the code of the supplier besides requesting for resource replacement. No more transactions shall be carried out with that supplier.

Sunshine Procurement

In respect of supply chain management and procurement, the Company has adhered to the philosophy of "sunshine procurement", it has also been committed to its social responsibilities, so as to ensure that the corporate social responsibilities are fulfilled throughout the process of supply chain management and procurement and such process is "fair, open and equitable".

1. In respect of supply chain management, the Company first requires the suppliers to establish clear and formal code of business ethics and business conduct based on industry standards, such as EICC, and such requirement shall be included in the suppliers' audit criteria and shall be passed on through the audit. The Company will vigorously promote, establish and protect the suppliers' sunshine procurement system through "supplier meetings" and "supplier seminars", etc. It will also set the sunshine procurement policy as the key aspect for assessing suppliers and will strictly urge the suppliers to establish sunshine procurement system and process.

2. In respect of ways of procurement, BYD widely adopts various ways of procurement, such as tender, close quotation via electronic means, comparing prices, etc. It requires all suppliers to sign a "sunshine cooperation agreement", which specifies the responsibilities and obligations of both parties during the sunshine cooperation regarding procurement activities. The sunshine cooperation agreement also states ways of complaints, such as by telephone, email, message, etc., so as to provide the suppliers with convenient ways of making complaints. Hence, suppliers are also included in the list of "supervisors" in the sunshine procurement of the Company.

3. The Company specially established two departments under its direct control, i.e. a procurement committee and an examining division, to control supply chain management and procurement internally. Signs, telephone numbers and mailboxes related to making complaints are displayed in various places in each industrial park of the Company, and all behaviour and activities in breach of corporate social responsibilities and sunshine procurement will be imposed with serious punishment once verified. Such measures ensure that supply chain management and procurement are supervised by all personnel and facilitate the effective implementation and supervision of social responsibilities and sunshine procurement.

4. The procurement platform management department of the Company collects blacklists of suppliers regularly. The Company blacklists those enterprises that fail to fulfill corporate social responsibilities and use improper ways to compete or are punished by the government due to various reasons. Suppliers on the blacklist are not allowed to carry out transactions with the Company within a prescribed period of time (or permanently, subject to the seriousness of the situation). Upon expiry of the restricted period, if cooperation is needed, qualification review should be conducted on the supplier according to the new supplier introduction process, and such supplier can participate in the Company's procurement business as usual after passing the review.

LEVEL B6: PRODUCT RESPONSIBILITY

Green Products

Providing energy-efficient and environmental products and solutions to reduce carbon emission is the Company's mission and unremitting pursuit. Determined to provide the safest and the most environmental products to the clients, the Company has always adhered to the policy of blending the green environmental protection requirements in the whole life cycle of products' developing, producing and delivering.

Product Quality

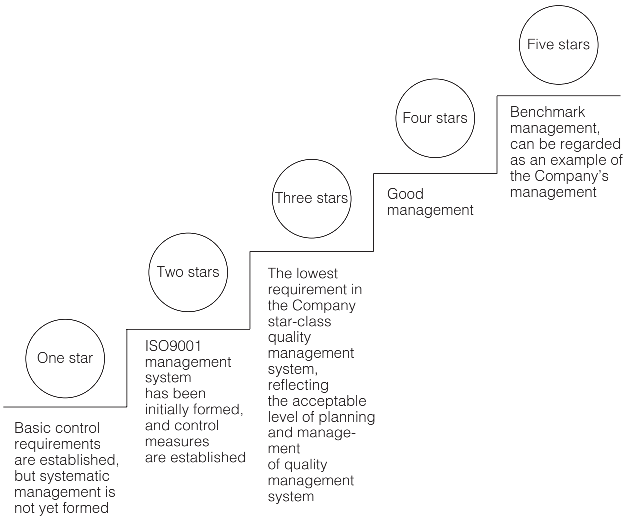
The Company adheres to the culture of "people before products", which means the quality of people determines the quality of products. As a manufacturing enterprise, products are our foundation of success, and quality is the essence of products. After over two decades of development and exploration, the Company has a deeper understanding on quality and quality culture.

Training for Quality Enhancement

The Company believes that, staff's awareness on quality has a huge impact on the quality of their work, and work quality, to a large extent, determines product quality. The Company provides training on quality for employees on a regular basis, it also implements rules for training and examination on quality. Moreover, the company plans to use three years to further raise the staff's awareness on quality through three aspects, i.e. management, execution and operation, from 2016 to 2018, and enhance relevant quality management requirements and training on skills, such that the Company can make a great step forward on quality management.

Star-class Assessment

The Company uses a quality management system star-class assessment model with "compare, help, pursue, exceed" as a driving force, to assess the factory's quality management system from four dimensions i.e. system, manufacturing process, products and 5S. Assessment results are classified into one star, two stars, three stars (acceptable), four stars (good) and five stars (benchmark), with five stars as the highest. The results of star-class assessment are included in the quality examination of various factories and are linked to the performance, promotion and demotion of factory managers, as a result, the construction of the factory's quality system is greatly promoted and maintained. Hence, star-class assessment is conducive to the enhancement of product quality.



Meanwhile, the Company implements layered process audit (LPA) to ensure spot inspection is carried out on a regular basis during production process, to enhance the operating staff's awareness on self-inspection and quality, and to enhance the self-management mechanism and product quality in order to lower the cost of quality management.

LEVEL B7: ANTI-CORRUPTION

Compliance with Laws

The Company is in strict compliance with laws, social norms, professional ethics, internal rules and regulations of the Company throughout the country. The legal audit rate of various rules and regulations, economic contracts and important decisions of the Company has reached 100%. Meanwhile, the Company has implemented effective internal control mechanism in order to protect the performance of economic contracts.

The "Code of Conduct" in the Employee Handbook of the Company states that all of its activities will fully comply with all laws, systems and regulations of the countries in which it operates. The code also requires the Company to adopt higher international standards in addition to compliance with laws, in an effort to enhance its responsibilities to the society and environment. The Company undertakes that it will get to know the views of the related parties regularly so as to continue to develop and perfect its code of conduct.

Anti-corruption and Anti-commercial Bribery

The Company requires all of its business activities to follow the highest integrity standard and strictly prohibits any form of corruption, extortion and fraud. If such situation is found, employment of relevant parties will be terminated immediately and legal action will be taken. The Company strictly prohibits the provision or acceptance of bribes, gifts, entertainment or any other form of practice which intends to affect or may affect the relevant business decisions of the Company in order to gain unusual or inappropriate advantage.

The Company attaches great importance to fostering a culture of integrity, and adopts the principle of "zero tolerance" to corruption. The Company considers the punishment and prevention of corruption as the key aspect of corporate culture, as such, it widely carries out education on integrity and discipline and alerts all staff through notices on corruption cases. The Company provides channels for complaints to encourage the reporting of behaviour in violation of ethical principles and laws.

COMMUNITY

LEVEL B8: INVESTMENT: COMMUNITY INVESTMENT

The Company keeps in mind its social responsibilities and has been expanding the areas of its charitable work. It actively facilitates the building of good relationship with the communities in which it operates, vigorously participates and promotes national community activities to help create a better society.

"Old Clothes Deep Love (衣舊情深)" Old Clothes Recycling Environmental Charity Event

In 2016, the Company participated in an old clothes recycling environmental charity event known as "Old Clothes Deep Love". Staff of various industrial parks started clothes donation campaigns. A lot of volunteers were involved to spread the knowledge on recycling and call upon people to make donations. "Let your used items be others' necessities", staff and their families were encouraged to make donations in order to contribute to such national charitable event.

The board of directors (the "Board") of BYD Electronic (International) Company Limited would like to present its annual report and audited consolidated financial statements for the year ended 31 December 2016.

CORPORATE REORGANISATION

The Company was incorporated with limited liability in Hong Kong on 14 June 2007. By the virtue of the reorganisation implemented in preparation for the listing of the shares of the Company on the main board of The Stock Exchange of Hong Kong Limited ("Stock Exchange") for the purpose of rationalising the structure of the Group, the Company became the holding company of the Group. The shares of the Company commenced listing on the main board of the Stock Exchange on 20 December 2007.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the Group are manufacture of mobile intelligent terminal components and modules. It also provides design and assembly services for mobile intelligent terminal to its customers.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2016 and the financial position of the Group and the Company as at the date are set out in the consolidated financial statements and their notes on pages 53 to 107 in this annual report.

An interim cash dividend of RMB0.067 per share for the six months ended 30 June 2016 amounting to approximately RMB150.965 million in aggregate was paid to the shareholders during the Year (for the six months ended 30 June 2015: Nil).

The Board has resolved to declare a final dividend for the year ended 31 December 2016 of RMB0.069 per share (for the year ended 31 December 2015: Nil). The proposed final dividend is subject to consideration and approval at the Company's annual general meeting (the "AGM").

The Company will issue announcement, circular and notice of AGM regarding the AGM in accordance with the Listing Rules and the Articles of Association of the Company. The Company will also make separate announcement regarding the record date and date of closure of register of members for the payment of the final dividend. It is expected that the final dividend will be distributed before 31 August 2017.

RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in the consolidated statements of changes in equity and note 24 and 32 to the financial statements respectively.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements during the Year in the property, plant and equipment of the Group are set out in note 13 to the financial statements.

SHARE CAPITAL/PAID-IN CAPITAL

Details of the movements during the year in the share capital are set out in note 23 to the financial statements.

During the Year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company.

DISTRIBUTABLE RESERVES OF THE COMPANY

Distributable reserves of the Company as at 31 December 2016, calculated under the provisions of Sections 291, 297 and 299 of the Companies Ordinance (Cap. 622 of the laws of Hong Kong) (the "Hong Kong Companies Ordinance"), amounted to approximately RMB7,878,981,000 (2015: RMB6,796,455,000).

DIRECTORS AND SERVICE CONTRACTS

The Directors of the Company during the Year and up to the date of this report were:

EXECUTIVE DIRECTORS

WANG Nian-qiang
SUN Yi-zao (resigned on 3 January 2017)
WANG Bo (appointed on 3 January 2017)

NON-EXECUTIVE DIRECTORS

WANG Chuan-fu
WU Jing-sheng

INDEPENDENT NON-EXECUTIVE DIRECTORS

Antony Francis Mampilly
CHUNG Kwok Mo John
QIAN Jing-jie

Below is a list of directors of the subsidiaries of the Company during the Year and up to the date of this report in alphabetical order:

CHEN Yong-ping	HE Zhi-qi	LI Ke
LIU Wei-hua	LV Xiang-yang	SUN Yi-zao
WANG Bo	WANG Chuan-fu	WANG Jiang
WANG Nian-qiang	WANG Zhen	WU Jing-sheng
XIA Zuo-quan	ZHAO Bo	

Pursuant to Article 106 of the Articles of Association, at each annual general meeting, one-third of the Directors, or if their number is not three (3) or a multiple of three (3), the number which is nearest to and is at least one-third, shall retire from office by rotation at least once every three (3) years. A retiring Director shall be eligible for re-election.

Each of the executive Directors of the Company has entered into a service contract with the Company for a term of three years. Either party has the right to give not less than three months' written notice to terminate the agreement. The particulars of these agreements are in all material respects identical and that each of the executive Directors is entitled to a salary and, at the discretion of the Board, a bonus payment.

Each of the non-executive Directors and independent non-executive Directors has entered into an appointment letter with the Company. None of them has entered into any service contract with the Group. The term of office of the non-executive Directors and independent non-executive Directors is for a period of three years and in each case, either the Company or the relevant Director can give three months' prior notice at any time to terminate the appointment without payment of compensation, and the appointments are subject to the provisions of retirement and rotation of Directors under the Articles of the Company.

The terms of each of the appointment letters of each of such non-executive Directors and independent non-executive Directors are in all material respects identical. Each of the independent non-executive Directors is entitled to a director's fee whereas none of the non-executive Directors is entitled to a director's fee.

BUSINESS REVIEW

The business review of the Group are set out in the following sections of this annual report: Chairman's Statement, Management Discussion and Analysis and Note 31 to the Financial Statements. The applicable discussion and analysis as referenced shall form an integral part of this Directors' Report.

The Group recognises the importance of compliance with relevant laws and regulations and the impact of non-compliance with such relevant laws and regulations on the business. The Group has been allocating system and staff resources to ensure ongoing compliance with rules and regulations and to maintain cordial working relationships with regulators through effective communication. During the year ended 31 December 2016, the Group has complied with, to the best of our knowledge, all relevant rules and regulations that have a significant impact on the Group.

The Company recognises that our employees, customers and suppliers are key to our corporate sustainability. We strive to engage our employees, provide quality services to our customers and collaborate with our suppliers.

The Company places significant emphasis on human capital by promoting a diverse, non-discriminatory and fair environment to our staff, as well as providing a range of opportunities for career advancement based on employees' merits and performance. We also provide continuing training and development opportunities on the latest developments in the market and industry, including courses organized by external organizations and internally.

We value the feedback from customers and have established a mechanism handling customer service, support and complaints. We also proactively collaborate with our suppliers to deliver quality sustainable products and services. We have developed certain requirements in our standard tender documents. These requirements include regulatory compliance, labour practices, anticorruption and other business ethics.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of Directors and senior management of the Company are set out on pages 12 to 14.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES

As at 31 December 2016, the relevant interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO")), which are required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which are taken or deemed to have under such provisions of the SFO) or were required pursuant to Section 352 of the SFO, to be entered in the register referred to therein or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") relating to securities transactions by Directors to be notified to the Company and the Stock Exchange were as follows:

Name of Director	Name of Company	Capacity	Number of issued shares held	Approximate percentage of total issued shares of that company
Mr. WANG Nian-qiang	the Company	Beneficial owner and beneficiary	15,602,000[1] (long position)	0.69%
	BYD	Beneficial owner	19,049,740[2] (long position)	0.70%
Mr. SUN Yi-zao	the Company	Beneficiary	5,797,000[3] (long position)	0.26%
	BYD	Beneficial owner	8,164,680[2] (long position)	0.30%
Mr. WU Jing-sheng	the Company	Beneficiary	8,602,000[3] (long position)	0.38%
	BYD	Beneficial owner	4,457,580[2] (long position)	0.16%
Mr. WANG Chuan-fu	BYD	Beneficial owner	517,351,520[4] (long position)	18.96%

Notes

1. Of which 7,000,000 shares are held by Mr. Wang Nian-qiang and 8,602,000 shares are held by Gold Dragonfly Limited ("Gold Dragonfly"), a company incorporated in the British Virgin Islands and wholly owned by BF Gold Dragon Fly (PTC) Limited ("BF Trustee") as the trustee of BF Trust, the beneficiaries of which include Mr. Wang Nian-qiang.

2. These are the A shares of BYD held by Mr. WANG Nian-qiang, Mr. SUN Yi-zao and Mr. WU Jing-sheng. The total issued share capital of BYD as at 31 December 2016 was RMB2,728,142,855, comprising 1,813,142,855 A shares and 915,000,000 H shares, all of par value of RMB1 each. The A shares of BYD held by Mr. WANG Nian-qiang, Mr. SUN Yi-zao and Mr. WU Jing-sheng represented approximately 1.05%, 0.45% and 0.25% of the total issued A shares of BYD as of 31 December 2016.

3. These shares are held by Gold Dragonfly, a company wholly owned by BF Trustee as the trustee of BF Trust, the beneficiaries of which include Mr. SUN Yi-zao and Mr. WU Jing-sheng.

4. These are the 512,623,820 A shares, 3,727,700 A shares held in No.1 Assets Management Plan through E Fund BYD and 1,000,000 H shares of BYD held by Mr. WANG Chuan-fu, which represented approximately 28.48% and approximately 0.11% of total issued A shares and H shares of BYD as of 31 December 2016, respectively.

Save as disclosed above, none of the Directors or chief executive had or was deemed to have any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as at 31 December 2016.

SHARE OPTIONS

During the year under review, the Company did not adopt any share option scheme.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed under the heading "Directors' and Chief Executive's Interests and Short Positions in Shares" above, at no time during the year ended 31 December 2016 was the Company, its holding company or any of its fellow subsidiaries and subsidiaries, a party to any arrangements to enable the Directors or the chief executive of the Company or their associates to acquire benefits by means of the acquisition of shares in the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2016, so far as was known to the Directors of the Company, the following persons (other than the Directors and chief executive of the Company) had interests or short positions in the ordinary shares and underlying shares of the Company which were required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name of shareholder	Nature of interest	Number of ordinary shares in which the interested party has or is deemed to have interests or short positions	Approximate percentage of total issued shares
Golden Link Worldwide Limited ("Golden Link")	Beneficial interest[1]	1,481,700,000 (long position)	65.76%
BYD (H.K.) Co., Limited ("BYD Hong Kong")	Interest of controlled corporation[1]	1,481,700,000 (long position)	65.76%
BYD	Interest of controlled corporation[1]	1,481,700,000 (long position)	65.76%
Gold Dragonfly	Beneficial interest[2]	137,081,650 (long position)	6.08%
BF Trustee	Trustee[2]	137,081,650 (long position)	6.08%

Notes

1. BYD is the sole shareholder of BYD Hong Kong, which in turn is the sole shareholder of Golden Link. As such, both BYD Hong Kong and BYD were deemed to be interested in the shares of the Company held by Golden Link.

2. The shares are held by Gold Dragonfly, a company wholly owned by BF Trustee as trustee of BF Trust, the beneficiaries of which are 32 employees of BYD, its subsidiaries and the Group. As such, BF Trustee was deemed to be interested in the shares of the Company held by Gold Dragonfly.

Save as disclosed above, as at 31 December 2016, the Company had not been notified by any persons (other than the Directors or chief executive of the Company) who had interests or short positions in the ordinary shares or underlying shares of the Company which were required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

CORPORATE GOVERNANCE

Report for the corporate governance adopted by the Company is set out on page 15 to 22 of this annual report.

REMUNERATIONS OF THE DIRECTORS AND THE FIVE HIGHEST PAID EMPLOYEES

For the year ended 31 December 2016, the total remuneration of the Directors and the five highest paid employees are set out in note 9 and 10 to the financial statements.

Subject to the Hong Kong Companies Ordinance, every Director or other officer of the Company shall be indemnified out of the assets of the Company against any liability, loss or expenditure incurred by him in defending any legal proceedings which relate to anything done or omitted to be done or alleged to have been done or omitted to be done by him as an officer or auditor of the Company and in which judgment is given in his favour or in which he is acquitted, or incurred in connection with any application in which relief is granted to him by the court from liability in respect of any such act or omission.

MAJOR CUSTOMERS AND SUPPLIERS

The top five largest customer groups and the largest customer group of the Group represent approximately 80.32% and 41.72% of the Group's total sales of the Year respectively. The top five largest suppliers and the largest supplier of the Group represent approximately 41.02% and 22.21% of the Group's total purchase of the Year respectively.

None of the Directors, any of their close associates or any shareholder of the Company (which, to the knowledge of the Directors, own 5% or more of the issued shares of the Company) had any beneficial interest in the top five largest customers and suppliers of the Group.

MANAGEMENT CONTRACTS

No contract concerning the management and operation of the whole or any substantial part of the business of the Company was entered into or existed during the year ended 31 December 2016.

NON-COMPETE UNDERTAKING

BYD Company Limited declared that it has complied with the non-compete deed given by it to Mr. Wang Chuan-fu and Mr. Lv Xiang-yang in favour of the Company (for itself and as trustee for the benefit of its subsidiaries from time to time) (as described in the prospectus of the Company dated 7 December 2007) (the "Non-compete Deed").

The independent non-executive Directors have also reviewed the compliance by BYD Company Limited, Mr. Wang Chuan-fu and Mr. Lv Xiang-yang with the Non-compete Deed and the independent non-executive Directors have confirmed that, as far as they can ascertain, there is no incidence of non-compliance with the Non-compete Deed by any of BYD Company Limited, Mr. Wang Chuan-fu and Mr. Lv Xiang-yang.

RELATED PARTY TRANSACTIONS

The related party transactions set out in note 28(a) to the financial statements constitute connected transactions or continuing connected transactions (as defined in Chapter 14A of the Listing Rules) of the Company and the Company has complied with the applicable disclosure requirements under Chapter 14A of the Listing Rules in respect of such transactions.

CONNECTED TRANSACTIONS

Details of the connected transactions are as follows:

THE FOLLOWING CONNECTED TRANSACTIONS OF THE COMPANY ARE SUBJECT TO THE REPORTING AND ANNOUNCEMENT REQUIREMENTS UNDER CHAPTER 14A OF THE LISTING RULES

(i) Sale of assets by the Company to BYD

On 22 June 2016, the Company entered into another assets sale agreement with BYD for the transfer of painting line (噴塗線), die-casting machine (壓鑄機) and other related equipment to BYD Group by the Group at a consideration of RMB96,857,000, which was determined with reference to the unaudited net asset value of the transferred assets as at 30 April 2016, subject to a downward adjustment on the day of assets delivery due to the accumulated depreciation before the delivery.

On 7 December 2016, the Company entered into another assets sale agreement with BYD for the transfer of air-compressor (空壓機), punching machine (衝床) and other related equipment to BYD Group by the Group at a consideration of RMB5,154,000, which was determined with reference to the unaudited net asset value of the transferred assets as at 31 October 2016, subject to a downward adjustment on the day of assets delivery due to the accumulated depreciation before the delivery.

Such sale proceeds have been used as general working capital of the Group.

As BYD is the controlling shareholder of the Company, it is a connected person of the Company and therefore the sale of assets constitutes connected transactions of the Company under Chapter 14A of the Listing Rules. The sales under the assets sale agreements entered into in June and December 2016 were aggregated with the sales under the assets sale agreement entered into in December 2015 (the details of which were set out in the announcement of the company dated 7 December 2015) for the purpose of calculating the percentage ratios as stipulated under Rule 14.07 of the Listing Rules. As the applicable percentage ratios were all more than 0.1% but less than 5%, the sales were subject to the reporting and announcement requirements under Rule 14A.76 of the Listing Rules, but are exempt from the independent shareholders' approval requirement.

The assets transferred to BYD Group have not been fully utilized by the Group and the Group has incurred maintenance cost in retaining such assets. The transfer of assets therefore enabled the Group to increase the overall utilization rate of its assets and hence enhanced its competitiveness.

(ii) Purchase of assets by the Company from BYD

On 22 June 2016, the Company entered into another assets purchase agreement with BYD for the purchase of surface mount machines/system (貼片機), spark machines (火花機), drilling and cutting process center (鑽削加工中心) and other related equipment by the Group from BYD Group with a consideration of RMB74,468,000, which was determined with reference to the unaudited net asset value of the transferred assets as at 30 April 2016 and subject to a downward adjustment on the day of assets delivery due to the accumulated depreciation before the delivery.

On 7 December 2016, the Company entered into another assets purchase agreement with BYD for the purchase of the vertical machining center (立式加工中心), surface mount machines/system (貼片機), spark machines (火花機) and other related equipment by the Group from BYD Group with a consideration of RMB173,205,000, which was determined with reference to the unaudited net asset value of the transferred assets as at 31 October 2016 and subject to a downward adjustment on the day of assets delivery due to the accumulated depreciation before the delivery.

The considerations in relation to the aforesaid acquisitions were financed by internal resources of the Group.

As BYD is the controlling Shareholder of the Company, it is a connected person of the Company and therefore the assets purchases constituted connected transactions of the Company under Chapter 14A of the Listing Rules. The purchases under the assets purchase agreements entered into in June and December 2016 were aggregated with the purchases under the assets purchase agreement entered into in December 2015 (the details of which were set out in the announcement of the company dated 7 December 2015) for the purpose of calculating the percentage ratios as stipulated under Rule 14.07 of the Listing Rules. As the applicable percentage ratios calculated on aggregation basis were all more than 0.1% but less than 5%, the purchases were subject to the reporting and announcement requirements under Rule 14A.76 of the Listing Rules, but are exempt from the independent Shareholders' approval requirements.

The purchase of the assets which have not been fully utilized by BYD Group accommodated the business needs of the Group and minimized short-term capital commitment and transaction costs of the Group. Furthermore, due to the proximity of the location of the Group and BYD Group, the Group has also benefited from reduced transportation cost and more convenient testing of the assets.

(iii) Extension of entrusted loan provided by BYD Precision Manufacture Co., Ltd. to BYD Company Limited

Pursuant to the entrusted loan agreement dated 29 November 2011, BYD Precision Manufacture Company Ltd. (比亞迪精密製造有限公司) ("BYD Precision") entrusted among others, the bank to lend the original entrusted loan of a total principal amount of RMB400 million from BYD Precision as lender to BYD as borrower. As the original entrusted loan was due to expire on 28 November 2014, BYD, BYD Precision and the bank entered into an agreement on 21 November 2014 to extend the maturity date of the original entrusted loan in an amount of RMB400 million for a further term of 36 months from the original maturity date until 28 November 2017 ("Entrusted Loan Extension Agreement").

The interest rate during the extension period under the Entrusted Loan Extension Agreement is at a fixed interest rate equivalent to the RMB benchmark interest rate for 3-year term loans effective on 29 November 2014 as announced by the People's Bank of China, and is to be settled on a monthly basis. The loan is to be repaid by a one-off repayment of the principal by BYD on its maturity, subject to early repayment as demanded by BYD Precision or opted by BYD. BYD Precision was also responsible for paying a one-off handling charge to the bank calculated at 0.02% of the total principal amount of the entrusted loan for arranging the extension of the entrusted loan.

As BYD is the controlling Shareholder of the Company indirectly interested in approximately 65.76% of the issued shares of the Company, it is a connected person of the Company. As such, the Entrusted Loan Extension Agreement constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. As certain of the applicable percentage ratios stipulated under Rule 14.07 of the Listing Rules in respect of the extension of the Entrusted Loan under the Entrusted Loan Extension Agreement exceed 0.1% but less than 5%, the Entrusted Loan Extension Agreement is subject to the reporting and announcement requirements but are exempt from the independent Shareholders' approval requirement set out in Chapter 14A of the Listing Rules.

The Entrusted Loans were intended to enable the Group to enhance the return on its surplus cash resources also the Entrusted Loan Extension Agreement is on normal commercial terms which are fair and are reasonable and in the interests of the Company and its shareholders as a whole.

CONTINUING CONNECTED TRANSACTIONS

Details of the continuing connected transactions are as follows:

A. THE FOLLOWING CONTINUING CONNECTED TRANSACTIONS OF THE COMPANY ARE SUBJECT TO THE REPORTING AND ANNOUNCEMENT REQUIREMENTS UNDER CHAPTER 14A OF THE LISTING RULES

(i) Leasing of factory and premises from BYD Group (other than the Group)

Pursuant to the New Baolong Lease Agreement dated 6 November 2015 between BYD Precision and BYD, BYD has agreed to lease to BYD Precision certain factory and office premises situated at Baolong Industrial Park, Longgang District, Shenzhen, the PRC during the period from 1 January 2016 to 31 December 2018. Pursuant to the New Huizhou Lease Agreement dated 6 November 2015 between Huizhou BYD Electronic Co., Limited (惠州比亞迪電子有限公司) ("Huizhou Electronic") and BYD (Huizhou) Company Limited (惠州比亞迪實業有限公司) ("BYD Huizhou"), BYD Huizhou has agreed to lease to Huizhou Electronic certain factory buildings situated at Xiangshui River, Dayawan Economic Technology Development District, Huizhou during the period from 1 January 2016 to 31 December 2018. Pursuant to the New Beijing Lease Agreement dated 6 November 2015 between BYD Precision and Beijing BYD Mould Company Limited (北京比亞迪模具有公司) ("BYD Beijing"), BYD Beijing has agreed to lease to BYD Precision certain premises at the 3rd and 4th floors and part of the 2nd floor of certain factory building at No. 1, Kechuang East Fifth Street, Tongzhou District, Beijing during the period from 1 January 2016 to 31 December 2018. Pursuant to the New Xi'an Lease Agreement dated 6 November 2015 between BYD Automobile Company Limited (比亞迪汽車有限公司) ("BYD Auto") and Xi'an BYD Electronic Company Limited (西安比亞迪電子有限公司) ("BYD Xi'an"), BYD Auto has agreed to lease BYD Xi'an certain factory and premises situated at No. 2, Yadi Road, Xinxing Industrial Area, Gaoxin District, Xi'an City during the period from 1 December 2015 to 30 November 2018. Pursuant to the New Xi'an Land Lease Agreement dated 6 November 2015 between BYD Automobile Company Limited ("BYD Auto") and Xi'an BYD Electronic Company Limited ("BYD Xi'an"), BYD Auto has agreed to lease BYD Xi'an certain lands situated at No. 2, Yadi Road, Xinxing Industrial Area, Gaoxin District, Xi'an City during the period from 1 January 2016 to 30 December 2018.

As BYD is the controlling shareholder of the Company, BYD and its subsidiaries (other than the Group) are connected persons of the Company. For the year ended 31 December 2016, the annual cap of total amount of the rental transactions of the Company was set at RMB40,387,000, the actual aggregate amount was approximately RMB39,323,000.

(ii) Sharing of ancillary services with BYD Group (other than the Group)

The Company and BYD entered into a New Comprehensive Services Master Agreement on 6 November 2015, pursuant to which BYD Group has agreed to provide to the Group ancillary services required for its operations during the period from 1 January 2016 to 30 December 2018.

As BYD is the controlling shareholder of the Company, BYD and its subsidiaries (other than the Group) are connected persons of the Company.

The annual cap of total expenditure for acquiring the ancillary services for the year ended 31 December 2016 is RMB10,820,000, and the actual aggregate amount was approximately RMB10,078,000.

(iii) Provision of processing services for BYD Group (other than the Group)

Pursuant to the New BE Processing Services Agreement dated 6 November 2015 between the Company and BYD, the Company has agreed that the Group will provide to BYD Group automation equipment design services, processing services and research and development support for certain products of the BYD Group, and waste water treatment facilities during the period from 1 January 2016 to 31 December 2018.

As BYD is the controlling shareholder of the Company, BYD and its subsidiaries (other than the Group) are connected persons of the Company.

The annual cap of total amount of the processing services provided to BYD Group is RMB56,999,000 for the year ended 31 December 2016, and the actual aggregate amount was approximately RMB39,551,000.

(iv) Provision of purchasing service by BYD Group

Pursuant to the New Supply Chain Management Service Agreement dated 6 November 2015 and the supplementary agreement dated 18 November 2016 between the Company and BYD Group, BYD Group has agreed to provide certain purchasing services to the Group during the period from 1 January 2016 to 30 December 2018.

As BYD is the controlling shareholder of the Company, BYD and its subsidiaries, are connected persons of the Company.

The annual cap of purchasing service fee payable to BYD Group by the Company for the year ended 31 December 2016 is RMB47,929,000, and the actual aggregate amount was approximately RMB33,493,000.

B. THE FOLLOWING CONTINUING CONNECTED TRANSACTIONS OF THE COMPANY ARE SUBJECT TO THE REPORTING, ANNOUNCEMENT AND INDEPENDENT SHAREHOLDERS' APPROVAL REQUIREMENTS UNDER CHAPTER 14A OF THE LISTING RULES.

(i) Supplying products to BYD Group (other than the Group)

Pursuant to the New Supply Agreement dated 6 November 2015 between the Company and BYD, the Company has agreed that the Group will supply to BYD Group products it required for producing its products such as plastic components, metal parts, chargers, and certain other materials at prevailing market prices during the period from 1 January 2016 to 31 December 2018.

As BYD is the controlling shareholder of the Company, BYD and its subsidiaries (other than the Group) are connected persons of the Company.

The annual cap of total amount of supply of products to BYD Group is RMB767,048,000 for the year ended 31 December 2016, the actual aggregate amount was approximately RMB535,945,000.

(ii) Purchasing products from BYD Group (other than the Group)

Pursuant to the New Purchase Agreement dated 6 November 2015 between the Company and BYD, BYD has agreed that BYD Group will supply to the Group (i) painting products and moulds; (ii) materials used for the Group's production of handset cases and chargers, etc.; and (iii) certain other related products at prevailing market prices during the period from 1 January 2016 to 31 December 2018.

As BYD is the controlling shareholder of the Company, BYD and its subsidiaries (other than the Group) are connected persons of the Company.

The annual cap set for the total purchases of products from BYD Group for the year ended 31 December 2016 is RMB1,095,472,000. The actual aggregate amount was approximately RMB936,990,000.

(iii) Provision of utility connection and/or utility by BYD Group (other than the Group)

Pursuant to the New Utility Services Master Agreement dated 6 November 2015 between the Company and BYD, BYD Group has agreed to provide to the Group certain utility connection and/or utility (as the case may be), including water and electricity, during the period from 1 January 2016 to 31 December 2018.

As BYD is the controlling shareholder of the Company, BYD and its subsidiaries (other than the Group) are connected persons of the Company.

The annual cap of total expenditure for acquiring utility connection and/or utility from BYD for the year ended 31 December 2016 is RMB739,489,000, and the actual aggregate amount was approximately RMB381,128,000.

(iv) Provision of processing services by BYD Group (other than the Group)

Pursuant to the New Processing Services Agreement dated 6 November 2015 between the Company and BYD, BYD Group has agreed to provide certain processing services for certain products (including handset metal parts) and facilities (including waste water treatment) of the Group whereby some steps in the production process of such facilities are further processed by BYD Group during the period from 1 January 2016 to 31 December 2018.

As BYD is the controlling shareholder of the Company, BYD and its subsidiaries (other than the Group) are connected persons of the Company.

The annual cap of expenditure for acquiring processing services from BYD Group is RMB505,615,000 for the year ended 31 December 2016, and the actual aggregate amount was approximately RMB337,083,000.

The Directors (including the independent non-executive Directors) have reviewed the above continuing connected transactions and confirmed that the transactions are:

(1) in the ordinary and usual course of business of the Group;

(2) on normal commercial terms; and

(3) in accordance with the relevant agreements entered into on terms which are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditor of the Company has provided a letter and confirmed that the aforesaid continuing connected transactions:

1. nothing has come to their attention that causes the auditors to believe that the disclosed continuing connected transactions have not been approved by the Board;

2. for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes the auditors to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group;

3. nothing has come to their attention that causes the auditors to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

4. with respect to the aggregate amount of each of the continuing connected transactions set out in the attached list of continuing connected transactions, nothing has come to their attention that causes the auditors to believe that the disclosed continuing connected transactions have exceeded the annual cap as set by the Company.

Mr. WANG Chuan-fu, a non-executive Director of the Company, has also been an executive director and chairman of the board of directors of BYD. Mr. WU Jing-sheng, a non-executive Director of the Company, has also been the vice president and chief financial officer of BYD. As Mr. WANG Chuan-fu and Mr. WU Jing-sheng held certain interests in the shares of BYD as at the dates of the aforementioned connected transactions and continuing connected transactions, Mr. WANG Chuan-fu and Mr. WU Jing-sheng, being Directors who may have a material interest in the aforesaid transactions, have voluntarily abstained from voting on the board resolutions of the Company concerning the aforesaid transactions.

PURCHASE, SALE OR REDEMPTION OF SHARES

From 1 January 2016 to 31 December 2016, the Company did not redeem any shares. During the Year, neither the Company nor any of its subsidiaries purchased or sold any shares of the Company.

DIRECTORS' INTEREST IN CONTRACTS

Save for the connected transactions and continuing connected transactions described in this report, no Directors or entities connected to the Directors have direct or indirect material interests in any material transactions or arrangements conducted or material contracts entered into by the Company or any of its subsidiaries at any time during or at the end of the Year.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Company has maintained sufficient public float during the year ended 31 December 2016.

CONFIRMATION OF INDEPENDENCE

Each independent non-executive Director has provided a written statement confirming his independence to the Company pursuant to Rule 3.13 of the Listing Rules. The Company assessed that each independent non-executive Director continues to be independent.

INDEPENDENT INTERNATIONAL AUDITOR

Since the incorporation of the Company, all its financial statements have been audited by Ernst & Young. A resolution will be proposed regarding the re-appointment of Ernst & Young as the Company's independent international auditor for 2017 at the forthcoming annual general meeting.

By the order of the Board

WANG NIAN-QIANG
Director

28 March 2017

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To the members of BYD Electronic (International) Company Limited
(Incorporated in Hong Kong with limited liability)

OPINION

We have audited the consolidated financial statements of BYD Electronic (International) Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 53 to 107, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Inventory Provision	
As of 31 December 2016, the total inventories and the related provision amounted to RMB3,565.2 million and RMB227.5 million, respectively, which was material to the financial statements. The inventories of the Group are mainly mobile intelligent terminals which are subject to rapid product innovations and technological upgrade. Management assessment on the inventory provision is judgmental and is based on assumptions, specifically the forecasted inventory usage and estimated selling prices, which are affected by expected future market and sales orders. The accounting policies and disclosures for inventory provision are included in note 2.4, 3 and 17 to the consolidated financial statements.	We performed procedures which included the following: • Assessed management's methodology and provision process and compared to that of the historical records; • Evaluated the assumptions used to determine the provision for slow moving, excess or obsolete items; • Recalculated provision amount by using the management's provision policy.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is *Chan Yuen Tao*.

Ernst & Young
Certified Public Accountants

Hong Kong

28 March 2017

	Notes	2016 RMB'000	2015 RMB'000
REVENUE	5	**36,734,264**	29,285,830
Cost of sales		**(33,934,135)**	(27,382,285)
Gross profit		**2,800,129**	1,903,545
Other income and gains	5	**474,005**	451,442
Government grants and subsidies	6	**25,502**	47,852
Research and development expenses		**(978,772)**	(722,270)
Selling and distribution expenses		**(184,698)**	(152,044)
Administrative expenses		**(562,215)**	(453,609)
Other expenses		**(113,914)**	(35,390)
Finance costs	7	**(26,953)**	(3,089)
PROFIT BEFORE TAX	8	**1,433,084**	1,036,437
Income tax expense	11	**(199,593)**	(128,292)
PROFIT FOR THE YEAR			
Attributable to owners of the parent		**1,233,491**	908,145
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
– Basic and diluted			
– For profit for the year	12	**RMB0.55**	RMB0.40

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2016

	2016 RMB'000	2015 RMB'000
PROFIT FOR THE YEAR	**1,233,491**	908,145
OTHER COMPREHENSIVE INCOME/(EXPENSE)		
Other comprehensive income/(expense) to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**123,917**	(25,578)
Net other comprehensive income/(expense) to be reclassified to profit or loss in subsequent periods	**123,917**	(25,578)
OTHER COMPREHENSIVE INCOME/(EXPENSE) FOR THE YEAR, NET OF TAX	**123,917**	(25,578)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**1,357,408**	882,567
Attributable to owners of the parent	**1,357,408**	882,567

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**6,396,606**	6,656,894
Prepaid land lease payments	14	**215,155**	219,049
Prepayments for items of property, plant and equipment	15	**398,569**	292,952
Other intangible assets	16	**24,938**	17,680
Loan to the ultimate holding company	28	**400,000**	400,000
Deferred tax assets	22	**215,990**	210,502
Total non-current assets		**7,651,258**	7,797,077
CURRENT ASSETS			
Inventories	17	**3,337,732**	3,948,269
Trade and bills receivables	18	**9,394,599**	7,906,438
Prepayments, deposits and other receivables	15	**397,974**	359,174
Due from related parties		**–**	4,786
Pledged deposits	19	**–**	1,155
Short-term deposits	19	**247,360**	268,600
Cash and cash equivalents	19	**2,966,064**	1,958,902
Total current assets		**16,343,729**	14,447,324
CURRENT LIABILITIES			
Trade and bills payables	20	**10,118,810**	9,265,345
Other payables	21	**1,998,659**	2,234,186
Due to related parties		**2,760**	29,055
Tax payable		**120,536**	168,036
Total current liabilities		**12,240,765**	11,696,622
NET CURRENT ASSETS		**4,102,964**	2,750,702
TOTAL ASSETS LESS CURRENT LIABILITIES		**11,754,222**	10,547,779
Net assets		**11,754,222**	10,547,779
EQUITY			
Share capital	23	**4,052,228**	4,052,228
Other reserves	24	**7,701,994**	6,495,551
Total equity		**11,754,222**	10,547,779

Wang Chuan-fu
Director

Wang Nian-qiang
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2016

	Attributable to owners of the parent					
	Share capital RMB'000 (note 23)	**Contributed surplus** RMB'000	**Statutory surplus reserve** RMB'000 (note (a))	**Exchange fluctuation reserve** RMB'000	**Retained profits** RMB'000	**Total** RMB'000
At 1 January 2015	4,052,228	(46,323)*	694,326*	(275,326)*	5,240,307*	9,665,212
Profit for the year	–	–	–	–	908,145	908,145
Exchange differences on translation of foreign operations	–	–	–	(25,578)	–	(25,578)
Total comprehensive income for the year	–	–	–	(25,578)	908,145	882,567
Transfer to statutory surplus	–	–	37,105	–	(37,105)	–
At 31 December 2015 and at 1 January 2016	4,052,228	(46,323)*	731,431*	(300,904)*	6,111,347*	10,547,779
Profit for the year	–	–	–	–	1,233,491	1,233,491
Exchange differences on translation of foreign operations	–	–	–	88,710	–	88,710
Total comprehensive income for the year	–	–	–	88,710	1,233,491	1,322,201
Disposal of a subsidiary	–	–	–	35,207	–	35,207
Interim 2016 dividend	–	–	–	–	(150,965)	(150,965)
Transfer to statutory surplus	–	–	91,866	–	(91,866)	–
At 31 December 2016	4,052,228	(46,323)*	823,297*	(176,987)*	7,102,007*	11,754,222

Notes:

(a) In accordance with the People's Republic of China (the "PRC") Company Law and the articles of association of the Company's subsidiaries, each of the Company's subsidiaries registered in the PRC is required to appropriate 10% of the annual statutory net profit after tax (after offsetting any prior years' losses) to its statutory surplus reserve. When the balance of this reserve reaches 50% of its capital, any further appropriation is optional. The statutory surplus reserve can be utilised to offset prior years' losses or to increase capital. However, the balance of the statutory surplus reserve must be maintained at a minimum of 25% of capital after this usage.

* These reserve accounts comprise the consolidated other reserves of RMB7,701,994,000 (2015: RMB6,495,551,000) in the consolidated statement of financial position as at 31 December 2016.

	Notes	2016 RMB'000	2015 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**1,433,084**	1,036,437
Adjustments for:			
Finance costs	7	**26,953**	3,089
Interest income	5	**(108,912)**	(57,366)
Loss on disposal of items of property, plant and equipment	8	**37,829**	2,142
Loss on disposal of a subsidiary		**11,558**	–
Depreciation	8	**1,726,743**	1,291,756
Amortisation of intangible assets	8	**8,933**	3,114
Recognition of prepaid land lease payments	8	**4,939**	4,929
Impairment of trade receivables	8	**41,841**	6,932
Impairment of trade receivables reversed	8	**(5,334)**	(2,005)
Impairment of inventories	8	**115,196**	23,540
		3,292,830	2,312,568
Decrease/(increase) in inventories		**494,734**	(1,533,082)
Increase in trade and bills receivables		**(1,524,703)**	(1,916,495)
(Increase)/decrease in prepayments, deposits and other receivables		**(38,910)**	74,176
Increase in trade and bills payables		**1,106,255**	2,945,769
Decrease/(increase) in an amount due from the related parties		**4,786**	(4,786)
(Decrease)/increase in other payables		**(220,128)**	1,461,705
(Decrease)/increase in an amount due to the related parties		**(26,295)**	29,055
Cash generated from operations		**3,088,569**	3,368,910
Interest received		**108,912**	57,366
Tax paid		**(243,008)**	(67,487)
Net cash flows from operating activities		**2,954,473**	3,358,789

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(1,862,246)**	(3,120,303)
Disposal of a subsidiary		**(5,288)**	–
Additions to other intangible assets	16	**(16,191)**	(198)
Proceeds from disposal of items of property, plant and equipment		**10,256**	31,530
Decrease in pledged deposits		**1,155**	100,754
Withdrawal of short-term deposits		**273,921**	505,799
Investments in short-term deposits		**(252,681)**	(635,348)
Net cash flows used in investing activities		**(1,851,074)**	(3,117,766)
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		**(26,953)**	(3,089)
Dividend paid		**(150,965)**	–
Net cash flows used in financing activities		**(177,918)**	(3,089)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**925,481**	237,934
Cash and cash equivalents at beginning of year		**1,958,902**	1,740,182
Effect of foreign exchange rate changes, net		**81,681**	(19,214)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**2,966,064**	1,958,902

1. CORPORATE AND GROUP INFORMATION

The Company was incorporated in Hong Kong with limited liability on 14 June 2007.

The Company's shares have been listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 20 December 2007.

The registered office of the Company is located at Unit 1712, 17th Floor, Grand Central Plaza, No. 138 Shatin Rural Committee Road, Shatin, Hong Kong.

The Group was principally engaged in the manufacture, assembly and sale of mobile handset components and modules.

In the opinion of the directors, the parent of the Company is Golden Link Worldwide Limited, an enterprise established in the British Virgin Islands, and the ultimate holding company of the Company is BYD Company Limited, which is established in the PRC.

INFORMATION ABOUT SUBSIDIARIES

Particulars of the Company's principal subsidiaries are as follows:

Company name	Place of incorporation or registration and operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Lead Wealth International Limited ("Lead Wealth") (領裕國際有限公司)***	British Virgin Islands	US$50,000	–	100	Investment holding
BYD Precision Manufacture Co., Ltd. ("BYD Precision") (比亞迪精密製造有限公司)*	PRC/Mainland China	US$145,000,000	–	100	Manufacture and sale of mobile handset components and modules
Huizhou BYD Electronic Co., Limited ("Huizhou Electronic") (惠州比亞迪電子有限公司)**	PRC/Mainland China	US$110,000,000	–	100	High-level assembly

1. CORPORATE AND GROUP INFORMATION *(Continued)*

INFORMATION ABOUT SUBSIDIARIES *(Continued)*

Company name	Place of incorporation or registration and operations	Registered capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
BYD Electronics India Private Limited ("BYD India")***	India	INR2,407,186,600	–	100	Manufacture and sale of mobile handset components and modules
Xi'an BYD Electronic Co., Limited ("Xi'an Electronic") (西安比亞迪電子有限公司)*	PRC/Mainland China	RMB100,000,000	–	100	Manufacture and sale of mobile handset components
BYD (Wuhan) Electronic Co., Limited ("Wuhan Electronic") (武漢比亞迪電子有限公司)*	PRC/Mainland China	RMB10,000,000	–	100	Manufacture and sale of mobile handset components

* These subsidiaries are registered as wholly-foreign-owned enterprises under PRC law.

** Huizhou Electronic is registered as a co-operative joint venture enterprise.

*** These subsidiaries are registered as wholly-foreign-owned enterprises under foreign law.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2016. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	*Investment Entities: Applying the Consolidation Exception*
Amendments to HKAS 1	*Disclosure Initiative*
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and amortisation*
Amendments to HKAS 27 (2011)	*Equity Method in Separate Financial Statements*
Annual Improvements 2012-2014 Cycle	Amendments to a number of HKFRSs

Except for the amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011), and certain amendments included in the *Annual Improvements 2012-2014 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the amendments are described below:

(a) Amendments to HKAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:

(i) the materiality requirements in HKAS 1;

(ii) that specific line items in the statement of profit or loss and the statement of financial position may be disaggregated;

(iii) that entities have flexibility as to the order in which they present the notes to financial statements; and

(iv) that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss. The amendments have had no significant impact on the Group's financial statements.

(b) Amendments to HKAS 16 and HKAS 38 clarify the principle in HKAS 16 and HKAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are applied prospectively. The amendments have had no impact on the financial position or performance of the Group as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

(c) Amendments to HKAS 27 (2011) *Equity Method in Separate Financial Statements*

The HKAS 27 (2011) Amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying HKFRSs and electing to change to the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements are required to apply the change retrospectively. The amendments will not be applicable to the Group's consolidated financial statements.

(d) *Annual Improvements to HKFRSs 2012-2014 Cycle* issued in October 2014 sets out amendments to a number of HKFRSs. Details of the amendments are as follows:

- HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*: Clarifies that changes to a plan of sale or a plan of distribution to owners should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. Accordingly, there is no change in the application of the requirements in HKFRS 5. The amendments also clarify that changing the disposal method does not change the date of classification of the non-current assets or disposal group held for sale. The amendments are applied prospectively. The amendments have had no impact on the Group as the Group did not have any change in the plan of sale or disposal method in respect of the disposal group held for sale during the year.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 9	*Financial Instruments*[2]
HKFRS 15	*Revenue from Contracts with Customers*[2]
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*[2]
HKFRS 16	*Leases*[3]
Amendments to HKAS 7	*Disclosure Initiative*[1]
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[1]

1 Effective for annual periods beginning on or after 1 January 2017

2 Effective for annual periods beginning on or after 1 January 2018

3 Effective for annual periods beginning on or after 1 January 2019

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt HKFRS 9 from 1 January 2018. The Group is currently assessing the impact of the standard upon adoption and expects that the adoption of HKFRS 9 will have an impact on the classification and measurement of the Group's financial assets.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Group expects to adopt HKFRS 15 on 1 January 2018 and is currently assessing the impact of HKFRS 15 upon adoption.

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. The Group expects to adopt HKFRS 16 on 1 January 2019 and is currently assessing the impact of HKFRS 16 upon adoption.

Amendments to HKAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments will result in additional disclosure to be provided in the financial statements. The Group expects to adopt the amendments from 1 January 2017.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

Amendments to HKAS 12 were issued with the purpose of addressing the recognition of deferred tax assets for unrealised losses related to debt instruments measured at fair value, although they also have a broader application for other situations. The amendments clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The Group expects to adopt the amendments from 1 January 2017.

2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BUSINESS COMBINATIONS AND GOODWILL

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

BUSINESS COMBINATIONS AND GOODWILL *(Continued)*

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

FAIR VALUE MEASUREMENT

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FAIR VALUE MEASUREMENT *(Continued)*

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

IMPAIRMENT OF NON-FINANCIAL ASSETS

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets, goodwill and non-current assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

RELATED PARTIES

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal estimated useful lives and residual value used for this purpose are as follows:

	Estimated useful lives	Residual value
Freehold land	Not depreciated	–
Buildings	50 years	5%
Leasehold improvements	Over the shorter of the lease terms and 5 years	–
Machinery and equipment	5 to 10 years	5%
Office equipment and fixtures	5 years and below	5%
Motor vehicles	5 years	5%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

INTANGIBLE ASSETS (OTHER THAN GOODWILL)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Computer software

Purchased computer software is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of five years.

Research and development costs

All research costs are charged to the statement of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

OPERATING LEASES

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

INVESTMENT AND OTHER FINANCIAL ASSETS

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss and loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

INVESTMENT AND OTHER FINANCIAL ASSETS *(Continued)*

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated a sat fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss.The loss arising from impairment is recognised in the statement of profit or loss in finance costs for loans and in other expenses for receivables.

2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

DERECOGNITION OF FINANCIAL ASSETS

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement,it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

IMPAIRMENT OF FINANCIAL ASSETS

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

IMPAIRMENT OF FINANCIAL ASSETS *(Continued)*

Financial assets carried at amortised cost (Continued)

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred) The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in the statement of profit or loss.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

FINANCIAL LIABILITIES

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, amounts due to fellow subsidiaries and an amount due to the ultimate holding company.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL LIABILITIES *(Continued)*

Financial liabilities at fair value through profit or loss (Continued)

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

DERECOGNITION OF FINANCIAL LIABILITIES

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Cost of moulds is determined at the actual cost incurred in the production process. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

CASH AND CASH EQUIVALENTS

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits and assets similar in nature to cash, which are not restricted as to use.

Term deposits with an initial term of over three months but less than one year were classified as short-term deposits on the consolidated statement of financial position.

2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

PROVISIONS

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

Provisions for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

INCOME TAX

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

INCOME TAX *(Continued)*

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

GOVERNMENT GRANTS

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

REVENUE RECOGNITION

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably on the following bases:

(a) from the sale of goods and materials, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from assembly service income, when the underlying services have been rendered; and

(c) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

EMPLOYEE BENEFITS

Medical benefits

The Group's contributions to various defined contribution medical benefit plans organised by the relevant municipal and provincial governments in the PRC are expensed as incurred.

Pension schemes – Mainland China

The employees of the Group's subsidiaries, which operate in Mainland China, are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

Pension schemes – outside-Mainland China

The Group contributes on a monthly basis to various defined contribution plans organised by the relevant governmental authorities in various areas other than Mainland China. The Group's liability in respect of these plans is limited to the contributions payable at the end of each period. Contributions to these plans are expensed as incurred.

Housing fund – Mainland China

The Group contributes on a monthly basis to a defined contribution housing fund plan operated by the local municipal government. Contributions to this plan by the Group are expensed as incurred.

BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

DIVIDENDS

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

FOREIGN CURRENCIES

These financial statements are presented in RMB, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FOREIGN CURRENCIES *(Continued)*

The Group treats specific inter-company loan balances, which are not intended to be repaid in the foreseeable future, as part of its net investment. When a foreign operation is sold, such exchange differences are recognised in the statement of profit or loss as part of the gain or loss on sale.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries are currencies other than the RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

JUDGEMENTS

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Deferred tax on withholding tax arising from the distributions of dividends

The Group's determination as to whether to accrue for withholding taxes arising from the distributions of dividends from certain subsidiaries levied in the relevant tax jurisdiction is subject to judgement on the timing of the payment of the dividends. The Group considers that if the earnings will not be probable to be distributed in the foreseeable future, then no deferred tax liabilities on such withholding tax should be provided. Further details are included in note 22 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

ESTIMATION UNCERTAINTY

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting date. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Depreciation and amortisation

The Group calculates the depreciation of items of property, plant and equipment and amortisation of intangible assets on the straight-line basis over their estimated useful lives or on the unit of production basis and after taking into account their estimated residual value, estimated useful lives or estimated total production quantities, commencing from the date the items of property, plant and equipment and intangible assets are placed into use. The estimated useful lives or the total production quantities reflect the directors' estimate of the period that the Group intends to derive future economic benefits from the use of the Group's items of property, plant and equipment or intangible assets.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing, and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2016 was RMB41,768,000 (2015: RMB51,192,000). Further details are included in note 22 to the financial statements.

Allowance for doubtful receivables

Management makes provision for doubtful accounts by determining whether there is any objective evidence affecting collectability, like the insolvency of the debtor or the possibility of serious financial difficulties. Management re-estimates the allowance for doubtful receivables at the end of each reporting period.

Write-down of inventories based on the lower of cost and net realisable value

The Group, pursuant to the accounting policy for inventories, writes down inventories from cost to net realisable value and makes reserves for slow-moving items and obsolescence by using the lower of cost and net realisable value rule. The Group re-estimates the allowance to reduce the valuation of inventories to net realisable value item by item at the end of each reporting period.

4. OPERATING SEGMENT INFORMATION

The Group's primary business is the manufacture, assembly and sale of mobile handset components and modules. For management purposes, the Group is organised into one operating segment based on industry practice and management's vertical integration strategy. Management monitors the results of the Group as a whole for the purpose of making decisions about resource allocation and performance assessment. No further analysis thereof is presented. Segment performance is evaluated based on the revenue and profit before tax which is consistent with the Group's revenue and profit before tax.

GEOGRAPHICAL INFORMATION

(a) Revenue from external customers

	2016 RMB'000	2015 RMB'000
PRC	**33,419,185**	27,309,032
United States of America	**940,750**	133,834
Europe	**846,436**	913,460
Other countries	**1,527,893**	929,504
	36,734,264	29,285,830

The revenue information above is based on the locations of the customers.

(b) Non-current assets

	2016 RMB'000	2015 RMB'000
PRC	**6,878,003**	7,409,826
India	**157,187**	147,315
Others	**78**	29,434
	7,035,268	7,586,575

The non-current asset information above is based on the locations of the assets and excludes financial instruments and deferred tax assets.

4. OPERATING SEGMENT INFORMATION *(Continued)*

INFORMATION ABOUT MAJOR CUSTOMERS

Revenue from customers of the corresponding years accounting for over 10% of the total sales of the Group is as follows:

	2016 RMB'000
Customer A[1]	**15,327,270**
Customer B[1]	**5,650,082**
Customer C[1]	**4,796,088**
	25,773,440

	2015 RMB'000
Customer A[1]	9,274,230
Customer B[1]	7,743,406
Customer C[1]	4,354,466
	21,372,102

1 Revenue from major customers comes from providing assembly services and the sale of mobile handset components and modules.

5. REVENUE, OTHER INCOME AND GAINS

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts, and the value of assembly services rendered during the year.

An analysis of revenue, other income and gains is as follows:

	2016 RMB'000	2015 RMB'000
Revenue		
Sale of mobile handset components and modules	**14,875,840**	11,588,638
Assembly services income	**21,858,424**	17,697,192
	36,734,264	29,285,830

	2016 RMB'000	2015 RMB'000
Other income and gains		
Bank interest income	**86,571**	33,446
Other interest income	**22,341**	23,920
Sale of scrap and materials	**199,456**	195,918
Compensation from suppliers and customers	**32,541**	50,693
Foreign exchange gain, net	**86,763**	121,603
Others	**46,333**	25,862
	474,005	451,442

6. GOVERNMENT GRANTS AND SUBSIDIES

	2016 RMB'000	2015 RMB'000
Related to income		
Subsidies on research and development activities (note (a))	10,000	–
Subsidies on employee benefit expense (note (b))	8,045	–
Subsidies on operating expense	–	46,650
Others	7,457	1,202
	25,502	47,852

Note:

(a) In 2016, BYD Precision, a subsidiary of the Company, received government grants with an amount of RMB10,000,000 from the Shenzhen Financial Scientific and Technological Innovation Committee (深圳市科技創新委員會) as subsidies on research and development activities. Since the related expenditure was incurred, RMB10,000,000 was fully recognised as government grant income this year.

(b) In 2016, BYD Precision, a subsidiary of the Company, received government grants with an aggregate amount of RMB8,045,000 from the Bureau of Human Resources and Social Security (人力資源和社會保障局) as subsidies on employee benefit expense. Since the related expenditure was incurred, RMB8,045,000 was fully recognised as government grant income this year.

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2016 RMB'000	2015 RMB'000
Interest on factored trade receivables	26,953	3,089

8. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2016 RMB'000	2015 RMB'000
Cost of inventories sold		**12,651,509**	9,933,978
Cost of services provided		**21,167,430**	17,424,767
Depreciation	13	**1,726,743**	1,291,756
Research and development costs:			
Current year expenditure		**978,772**	722,270
Minimum lease payments under operating leases		**142,652**	123,417
Auditors' remuneration		**1,590**	1,589
Recognition of prepaid land lease payments#	14	**4,939**	4,929
Amortisation of intangible assets#	16	**8,933**	3,114
Employee benefit expense (excluding directors' and senior executive officers' remuneration (note 28(c)))			
Wages and salaries		**4,532,724**	3,838,412
Retirement benefit scheme contributions		**244,165**	168,901
		4,776,889	4,007,313
Impairment of trade receivables##	18	**41,841**	6,932
Impairment losses of trade receivables reversed##	18	**(5,334)**	(2,005)
Impairment of inventories###	17	**115,196**	23,540
Loss on disposal of items of property, plant and equipment##		**37,829**	2,142
Loss on disposal of a subsidiary##		**11,558**	–
Foreign exchange (gain), net##		**(86,763)**	(121,603)

Included in "Administrative expenses" in the consolidated statement of profit or loss

Included in "Other income and gains" or "Other expenses" in the consolidated statement of profit or loss

Included in "Cost of sales" in the consolidated statement of profit or loss

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and executives' remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2016 RMB'000	2015 RMB'000
Fees	**600**	536
Other emoluments:		
Salaries, allowances and benefits in kind	**12,810**	6,477
Pension scheme contributions	**53**	52
	12,863	6,529
	13,463	7,065

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2016 RMB'000	2015 RMB'000
Mr. Mampilly, Antony Francis	**200**	200
Mr. Zhong Guo-wu	**200**	200
Mr. Qian Jing-jie	**200**	136
	600	536

There were no other emoluments payable to the independent non-executive directors during the year (2015: Nil).

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(Continued)*

(b) Executive directors and non-executive directors

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
31 December 2016				
Executive directors:				
Mr. Wang Nian-qiang**	–	8,040	27	8,067
Mr. Sun Yi-zao	–	4,770	26	4,796
	–	12,810	53	12,863
Non-executive directors:				
Mr. Wang Chuan-fu	–	–	–	–
Mr. Wu Jing-sheng	–	–	–	–
	–	–	–	–
31 December 2015				
Executive directors:				
Ms. Li Ke*	–	1,244	8	1,252
Mr. Wang Nian-qiang**	–	3,240	18	3,258
Mr. Sun Yi-zao	–	1,993	26	2,019
	–	6,477	52	6,529
Non-executive directors:				
Mr. Wang Chuan-fu	–	–	–	–
Mr. Wu Jing-sheng	–	–	–	–
	–	–	–	–

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

* Ms. Li Ke resigned as the executive director on 27 April 2015. Her remuneration of 2015 covered the period from January to April.

** Mr. Wang Nian-qiang was appointed as the executive director on 27 April 2015. His remuneration of 2015 covered the period from May to December.

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2015: two) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration for the year of the remaining three (2015: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2016 RMB'000	2015 RMB'000
Salaries, allowances and benefits in kind	6,367	4,535
Pension scheme contributions	73	75
	6,440	4,610

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2016	2015
RMB2,000,001 to RMB2,500,000	2	–
RMB1,500,001 to RMB2,000,000	1	2
RMB1,000,001 to RMB1,500,000	–	1
	3	3

11. INCOME TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

BYD Precision was approved to be a high and new technology enterprise in 2015, and is entitled to enjoy a reduced enterprise income tax rate of 15% from 2015 to 2017.

Huizhou Electronic was approved to be a high and new technology enterprise in 2015, and is entitled to enjoy a reduced enterprise income tax rate of 15% from 2015 to 2017.

Xi'an Electronic operating in Mainland China is entitled to enjoy a reduced enterprise income tax rate of 15% of the estimated assessable profits for the year pursuant to the Western Development Policy. These subsidiaries need to file the relevant document to the in-charge tax bureau for record every year so as to be entitled to the reduced rate of 15%.

BYD Electronics India Private Limited is subject to income tax at a rate of 33.99%.

11. INCOME TAX *(Continued)*

No Hong Kong profits tax has been provided since no assessable profit arose in Hong Kong during the year.

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions of which the Group operates, based on existing legislation, interpretations and practices in respect thereof. No provision has been made for profits tax in Romania and Finland as the Group had no assessable profits derived from these countries.

The major components of the income tax expense for the year are as follows:

	2016 **RMB'000**	2015 RMB'000
Current – Mainland China		
Charge for the year	**200,375**	158,337
Current – Elsewhere		
Charge for the year	**4,706**	–
Deferred (note 22)	**(5,488)**	(30,045)
Total tax charge for the year	**199,593**	128,292

A reconciliation of the tax expense applicable to profit before tax at the statutory rate for the jurisdiction in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate, and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective tax rate, are as follows:

	2016		2015	
	RMB'000	**%**	RMB'000	%
Profit before tax	**1,433,084**		1,036,437	
Tax at the applicable tax rate	**358,271**	**25.0**	259,109	25.0
Expenses not deductible for tax	**17,487**	**1.2**	17,544	1.7
Lower tax rate for specific provinces or enacted by local authority	**(164,103)**	**(11.5)**	(110,996)	(10.7)
Super-deduction of research and development costs	**(63,669)**	**(4.4)**	(37,735)	(3.6)
Tax losses utilised from previous periods	**(101)**	**(0.0)**	(4,342)	(0.4)
Tax losses and deductible differences not recognised	**51,708**	**3.6**	4,712	0.4
Tax charge at the Group's effective rate	**199,593**	**13.9**	128,292	12.4

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount for the year is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 2,253,204,500 (2015: 2,253,204,500) in issue during the year.

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2016 and 2015 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during those years.

The calculation of basic earnings per share is based on:

	2016 RMB'000	2015 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	1,233,491	908,145

	Number of shares	
	2016	2015
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	2,253,204,500	2,253,204,500

13. PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings RMB'000	Leasehold improvements RMB'000	Machinery and equipment RMB'000	Office equipment and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2016							
At 31 December 2015 and at 1 January 2016:							
Cost	1,092,187	87,935	8,881,147	1,310,321	25,662	272,754	11,670,006
Accumulated depreciation and impairment	(171,104)	(28,579)	(3,958,843)	(842,248)	(12,338)	–	(5,013,112)
Net carrying amount	921,083	59,356	4,922,304	468,073	13,324	272,754	6,656,894
At 1 January 2016, net of accumulated depreciation and impairment	921,083	59,356	4,922,304	468,073	13,324	272,754	6,656,894
Additions	24,129	51,297	1,008,194	240,796	7,377	245,782	1,577,575
Disposals	(47,198)	(1,875)	(18,812)	(7,507)	(373)	(40,904)	(116,669)
Impairment provided during the year	–	–	–	–	–	–	–
Write-off impairment	–	–	–	–	–	–	–
Depreciation provided during the year	(26,833)	(25,894)	(1,414,057)	(255,169)	(4,790)	–	(1,726,743)
Exchange realignment	10,251	–	(4,751)	46	3	–	5,549
Transfers	116,819	–	109,316	42,116	–	(268,251)	–
At 31 December 2016, net of accumulated depreciation and impairment	998,251	82,884	4,602,194	488,355	15,541	209,381	6,396,606
At 31 December 2016:							
Cost	1,189,693	110,901	9,327,983	1,501,422	30,405	209,381	12,369,785
Accumulated depreciation and impairment	(191,442)	(28,017)	(4,725,789)	(1,013,067)	(14,864)	–	(5,973,179)
Net carrying amount	998,251	82,884	4,602,194	488,355	15,541	209,381	6,396,606

13. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	Freehold land and buildings* RMB'000	Leasehold improvements RMB'000	Machinery and equipment RMB'000	Office equipment and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2015							
At 31 December 2014 and at 1 January 2015:							
Cost	1,048,064	30,496	6,158,442	1,205,242	13,254	240,579	8,696,077
Accumulated depreciation and impairment	(148,990)	(21,112)	(3,103,772)	(716,170)	(8,772)	–	(3,998,816)
Net carrying amount	899,074	9,384	3,054,670	489,072	4,482	240,579	4,697,261
At 1 January 2015, net of accumulated depreciation and impairment	899,074	9,384	3,054,670	489,072	4,482	240,579	4,697,261
Additions	–	57,439	2,846,126	77,867	13,379	296,576	3,291,387
Disposals	(1,372)	–	(10,944)	(24,539)	(49)	–	(36,904)
Impairment provided during the year	–	–	–	–	–	–	–
Write-off impairment	–	–	3,232	–	–	–	3,232
Depreciation provided during the year	(22,782)	(7,467)	(1,090,474)	(166,552)	(4,481)	–	(1,291,756)
Exchange realignment	(4,368)	–	(1,937)	(14)	(7)	–	(6,326)
Transfers	50,531	–	121,631	92,239	–	(264,401)	–
At 31 December 2015, net of accumulated depreciation and impairment	921,083	59,356	4,922,304	468,073	13,324	272,754	6,656,894
At 31 December 2015:							
Cost	1,092,187	87,935	8,881,147	1,310,321	25,662	272,754	11,670,006
Accumulated depreciation and impairment	(171,104)	(28,579)	(3,958,843)	(842,248)	(12,338)	–	(5,013,112)
Net carrying amount	921,083	59,356	4,922,304	468,073	13,324	272,754	6,656,894

14. PREPAID LAND LEASE PAYMENTS

	2016 RMB'000	2015 RMB'000
Carrying amount at 1 January	**223,996**	229,116
Recognised	**(4,939)**	(4,929)
Exchange realignment	**1,057**	(191)
Carrying amount at 31 December	**220,114**	223,996
Current portion included in prepayments, deposits and other receivables	**(4,959)**	(4,947)
Non-current portion	**215,155**	219,049

15. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2016 RMB'000	2015 RMB'000
Non-current portion:		
Prepayments for items of property, plant and equipment	398,569	292,952
Current portion:		
Prepayments	24,247	31,165
Deposits and other receivables	373,727	328,009
	397,974	359,174

None of the financial assets included in the above balances is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

16. OTHER INTANGIBLE ASSETS

	Computer software RMB'000
31 December 2016	
Cost at 1 January 2016, net of accumulated amortisation	17,680
Additions	16,191
Amortisation provided during the year	(8,933)
At 31 December 2016	24,938
At 31 December 2016:	
Cost	54,523
Accumulated amortisation	(29,585)
Net carrying amount	24,938

	Computer software RMB'000
31 December 2015	
Cost at 1 January 2015, net of accumulated amortisation	20,596
Additions	198
Amortisation provided during the year	(3,114)
At 31 December 2015	17,680
At 31 December 2015:	
Cost	58,574
Accumulated amortisation	(40,894)
Net carrying amount	17,680

17. INVENTORIES

	Group	
	2016	2015
	RMB'000	RMB'000
Raw materials	**1,490,321**	1,865,977
Work in progress	**100,114**	32,155
Finished goods	**1,727,848**	2,042,423
Moulds held for production	**19,449**	7,714
	3,337,732	3,948,269

18. TRADE AND BILLS RECEIVABLES

	2016	2015
	RMB'000	RMB'000
Trade and bills receivables	**9,460,708**	7,953,752
Impairment	**(66,109)**	(47,314)
	9,394,599	7,906,438

The Group's trading terms with its customers are mainly on credit. The credit period is generally two to three months. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. At the end of the reporting period, the Group had a certain concentration of credit risk as 36% (2015: 50%) and 71% (2015: 82%) of the Group's trade receivables were due from the Group's largest customer and the five largest customers, respectively. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An aged analysis of the trade and bills receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	2016	2015
	RMB'000	RMB'000
Within 90 days	**9,001,700**	7,658,330
91 to 180 days	**381,617**	220,644
181 to 360 days	**11,282**	27,464
	9,394,599	7,906,438

18. TRADE AND BILLS RECEIVABLES *(Continued)*

The movements in provision for impairment of trade and bills receivables are as follows:

	2016 RMB'000	2015 RMB'000
At 1 January	47,314	44,116
Impairment losses recognised (note 8)	41,841	6,932
Impairment losses reversed (note 8)	(5,334)	(2,005)
Amount written off as uncollectible	(17,712)	(1,722)
Exchange realignments	–	(7)
At 31 December	66,109	47,314

Included in the above provision for impairment of trade and bills receivables is a provision for individually impaired trade receivables of RMB66,109,000 (2015: RMB47,314,000) with a carrying amount of RMB116,086,000 (2015: RMB55,295,000).

The individually impaired trade receivables relate to customers that were in financial difficulties or were in default in principal payments and only a portion of the receivables is expected to be recovered.

The aged analysis of the trade and bills receivables that are not considered to be impaired is as follows:

	2016 RMB'000	2015 RMB'000
Neither past due nor impaired	8,800,818	7,347,370
Less than one year past due	543,804	551,087
	9,344,622	7,898,457

Receivables that were neither past due nor impaired relate to recognised and creditworthy customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been any significant change in credit quality and the balances are still considered fully recoverable.

19. CASH AND BANK BALANCES AND RESTRICTED BANK DEPOSITS

	Notes	2016 RMB'000	2015 RMB'000
Cash and bank balances		**2,966,064**	1,949,207
Time deposits		**247,360**	279,450
		3,213,424	2,228,657
Less: Restricted bank deposits:			
Short term deposits	(iii)	**(247,360)**	(268,600)
Pledged deposit	(i)	**–**	(1,155)
Cash and cash equivalents	(ii)	**2,966,064**	1,958,902

Notes:

(i) At 31 December 2016, no bank deposit (2015: RMB1,155,000) was pledged for bills payables. No bank deposit (2015: Nil) was pledged to the customs department for the operation in the bonded zone.

(ii) At the end of the reporting period, the cash and cash equivalents of the Group denominated in Renminbi ("RMB") amounted to RMB1,452,889,000 (2015: RMB1,428,859,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

(iii) The weighted average effective interest rate for the short term deposits of the Group with an initial term of three to six months for the year ended 31 December 2016 was 1.92% (2015: 1.61%). The carrying value of the short term deposits with an initial term of three to six months approximated to their fair value as at 31 December 2016. Short term deposits with an initial term of three to six months were denominated in RMB and were neither past due nor impaired.

(iv) Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

20. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	2016 RMB'000	2015 RMB'000
Within 90 days	**9,049,082**	8,131,166
91 to 180 days	**633,316**	1,103,449
181 to 360 days	**406,960**	13,291
1 to 2 years	**26,471**	15,870
Over 2 years	**2,981**	1,569
	10,118,810	9,265,345

The trade payables are non-interest-bearing and are normally settled within terms of 30 to 120 days.

21. OTHER PAYABLES

	2016 RMB'000	2015 RMB'000
Other payables	**1,079,356**	1,803,695
Accrued payroll	**919,303**	430,491
	1,998,659	2,234,186

Other payables are non-interest-bearing and have an average term of three months.

22. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

DEFERRED TAX ASSETS

	Depreciation in excess of depreciation allowance RMB'000	Impairment of inventories RMB'000	Salary payable RMB'000	Tax losses RMB'000	Accruals RMB'000	Undeducted payable RMB'000	Total RMB'000
At 1 January 2016	**129,314**	**21,936**	**–**	**51,192**	**7,612**	**448**	**210,502**
Deferred tax credited/(charged) to the statement of profit or loss during the year (note 11)	**11,340**	**9,495**	**–**	**(9,424)**	**(5,475)**	**(448)**	**5,488**
At 31 December 2016	**140,654**	**31,431**	**–**	**41,768**	**2,137**	**–**	**215,990**
At 1 January 2015	121,007	22,974	28,567	–	7,630	279	180,457
Deferred tax credited/(charged) to the statement of profit or loss during the year (note 11)	8,307	(1,038)	(28,567)	51,192	(18)	169	30,045
At 31 December 2015	129,314	21,936	–	51,192	7,612	448	210,502

Deferred tax assets have not been recognised in respect of the following items:

	2016 RMB'000	2015 RMB'000
Tax losses	**46**	24
Deductible temporary differences	**338,034**	322,029
	338,080	322,053

The above tax losses will expire in one to five years for offsetting against future taxable profits of BYD (Tianjin) Co., Ltd. in which the losses arose. Deferred tax assets have not been recognised in respect of the above items as it is not considered probable that taxable profits will be available against which the above items can be utilised.

22. DEFERRED TAX *(Continued)*

DEFERRED TAX ASSETS *(Continued)*

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 December 2016, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in the subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB7,407,967,000 at 31 December 2016 (2015: RMB6,098,093,000).

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

23. SHARE CAPITAL

SHARES

	2016 **RMB'000**	2015 RMB'000
Issued and fully paid		
2,253,204,500 (2015: 2,253,204,500) ordinary shares	**4,052,228**	4,052,228

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	**Share capital RMB'000**
At 1 January 2015	2,253,204,500	4,052,228
At 31 December 2015 and 1 January 2016	2,253,204,500	4,052,228
At 31 December 2016	**2,253,204,500**	**4,052,228**

24. OTHER RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 56 of the financial statements.

Pursuant to the relevant laws and regulations for business enterprises, a portion of the profits of the Group's entities which are registered in the PRC has been transferred to the statutory surplus reserve, which is restricted as to use.

25. CONTINGENT LIABILITIES

On 11 June 2007, a Hong Kong High Court action (the "June 2007 Action") was commenced by a subsidiary and an affiliate of Foxconn International Holdings Limited (the "Plaintiffs") against the Company and certain subsidiaries of the Group (the "Defendants") for using confidential information alleged to have been obtained improperly from the Plaintiffs. The Plaintiffs discontinued the June 2007 Action on 5 October 2007 with the effect that the June 2007 Action has been wholly discontinued against all the Defendants named in the action and this finally disposed of the June 2007 Action without any liability to the Defendants. On the same day, the Plaintiffs initiated a new set of legal proceedings in the Court (the "October 2007 Action"). The Defendants named in the October 2007 Action are the same as the Defendants in the June 2007 Action, and the claims made by the Plaintiffs in the October 2007 Action are based on the same facts and the same grounds in the June 2007 Action. The remedies sought by the Plaintiffs in the October 2007 Action include an injunction restraining the Defendants from using the alleged confidential information, an order for the disgorgement of profit made by the Defendants through the use of the confidential information, damages based on the loss suffered by the Plaintiffs and exemplary damages. The total damages sought by the Plaintiffs in the October 2007 Action have not been quantified.

On 2 October 2009, the Defendants instituted a counter-action against Foxconn International Holdings Limited and certain of its affiliates for their intervention, by means of illegal measures, in the operations involving the Company and certain of its subsidiaries, collusions, written and verbal defamation, and the economic loss as a result of the said activities.

As at the reporting date, the case remains in the process of legal proceedings. With the assistance from the Company's legal counsel representing the Company for the case, the directors are of the view that the estimate of the ultimate outcome and amount to settle the obligation, if any, of the litigation cannot be made reliably up to date of approval of the financial statements.

26. OPERATING LEASE ARRANGEMENTS

AS LESSEE

The Group leases certain of its production plants, staff quarters and warehouses under operating lease arrangements. Leases for these properties are negotiated for terms from three to five years.

There are no contingent rentals, renewal or purchase options, escalation clauses or any restrictions imposed on dividends, additional debt and further leasing within the lease arrangements.

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2016 **RMB'000**	2015 RMB'000
Within one year	**111,424**	77,147
In the second year	**70,274**	39,479
In the third to fifth years, inclusive	**36,885**	38,737
	218,583	155,363

27. COMMITMENTS

In addition to the operating lease commitments detailed in note 26 above, the Group had the following capital commitments at the end of the reporting period:

	2016 RMB'000	2015 RMB'000
Contracted, but not provided for:		
Plant and machinery	**425,028**	252,787
Building	**51,137**	39,782
	476,165	292,569

At the end of the reporting period, neither the Group nor the Company had any significant commitments.

28. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

			Year ended 31 December	
Nature of transactions	**Notes**	**Related parties**	**2016**	2015
			RMB'000	RMB'000
Sales of plant and machinery	(i)	Ultimate holding company	**24,844**	40,232
		Fellow subsidiaries	**72,449**	60,157
Purchases of plant and machinery	(i)	Ultimate holding company	**1,292**	2,705
		Fellow subsidiaries	**231,105**	182,751
Purchases of inventories	(ii)	Ultimate holding company	**40,971**	47,302
		Fellow subsidiaries	**896,019**	1,105,840
Sales of inventories	(ii)	Ultimate holding company	**23,489**	27,226
		Fellow subsidiaries	**512,456**	556,198
Leasing and ancillary expenses paid	(iii)	Ultimate holding company	**104,165**	103,346
		Fellow subsidiaries	**326,364**	342,317
Exclusive processing services received	(iv)	Ultimate holding company	**266,559**	215,961
		Fellow subsidiaries	**70,524**	232,539
Exclusive processing services provided	(iv)	Ultimate holding company	**20,893**	2,107
		Fellow subsidiaries	**18,658**	73,151
Agent fee for procurement service	(v)	Intermediate holding company	**21,646**	11,152
		Fellow subsidiaries	**11,847**	13,577

28. RELATED PARTY TRANSACTIONS *(Continued)*

(a) *(Continued)*

Notes:

(i) The sales and purchases of plant and machinery were made at net book values.

(ii) The sales and purchases of inventories were conducted in accordance with prices and terms mutually agreed between the parties. In the opinion of the directors, the transactions were conducted in the ordinary and usual course of business.

(iii) The expenses were charged on an actually incurred basis or in accordance with terms mutually agreed between the parties. In the opinion of the directors, the transactions were conducted in the ordinary and usual course of business.

(iv) The processing service fees and revenue were charged and received for the depreciation of the relevant machinery and equipment during the year ended 31 December 2016.

(v) The agent fee for the procurement service was charged on a certain percentage of the total amount of procurement provided by the fellow subsidiaries on behalf of the Group. For the year ended 31 December 2016, the total amount of procurement provided was RMB12,082,510,000.

(b) Outstanding balances with related parties:

Except for the entrusted loan to the ultimate holding company of RMB400,000,000, the balances with related parties are unsecured, interest-free and have no fixed terms of repayment.

(c) Compensation of key management personnel of the Group:

	2016 **RMB'000**	2015 RMB'000
Short-term employee benefits	**19,871**	13,013
Pension scheme contributions	**126**	153
	19,997	13,166

Further details of directors' emoluments are included in note 9 to the financial statements.

The related party transactions in respect of items set out in (a) above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

29. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2016

Financial assets

	Loans and receivables RMB'000
Loan to the ultimate holding company	400,000
Trade and bills receivables	9,394,599
Financial assets included in prepayments, deposits and other receivables (note 15)	20,006
Pledged deposits	–
Short-term deposits	247,360
Cash and bank balances	2,966,064
	13,028,029

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade and bills payables	10,118,810
Financial liabilities included in other payables (note 21)	616,083
	10,734,893

29. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

2015

Financial assets

	Loans and receivables RMB'000
Loan to the ultimate holding company	400,000
Trade and bills receivables	7,906,438
Financial assets included in prepayments, deposits and other receivables (note 15)	56,828
Pledged deposits	1,155
Short-term deposits	268,600
Cash and bank balances	1,958,902
	10,591,923

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade and bills payables	9,265,345
Financial liabilities included in other payables (note 21)	660,843
	9,926,188

30. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's and the Company's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	2016	2015	**2016**	2015
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial assets				
Loan to the ultimate holding company	**400,000**	400,000	**400,000**	400,000

Management has assessed that the fair values of short-term deposits, cash and cash equivalents, pledged deposits, trade and bills receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables, amounts due from/to subsidiaries, amounts due from/to the ultimate holding company and the immediate holding company approximate to their carrying amounts largely due to the short term maturities of these instruments.

FAIR VALUE HIERARCHY

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets for which fair values are disclosed:

As at 31 December 2016

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	**Significant observable inputs (Level 2) RMB'000**	**Significant unobservable inputs (Level 3) RMB'000**	**Total RMB'000**
Loan to the ultimate holding company	**–**	**400,000**	**–**	**400,000**

As at 31 December 2015

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Loan to the ultimate holding company	–	400,000	–	400,000

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2015: Nil).

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank loans, balances with related companies and cash and bank balances. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarized below.

FOREIGN CURRENCY RISK

The Group has transactional currency exposures. These exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. In addition, certain portions of the loans from related companies are denominated in currencies other than the RMB. The Group tends to accept foreign currency exchange risk avoidance or allocation terms when arriving at purchase and sale contracts. The Group takes rolling forecast on the foreign currency revenue and expenses and matches the currency and the amount incurred so as to alleviate the impact on business due to exchange rate fluctuations.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the United States dollar exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair values of monetary assets and liabilities) and the Group's equity.

	Increase/ (decrease) in United States dollar exchange rate %	Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in equity* RMB'000
2016			
If RMB weakens against United States dollar	**5**	**156,519**	**–**
If RMB strengthens against United States dollar	**(5)**	**(156,519)**	**–**
2015			
If RMB weakens against United States dollar	5	60,198	–
If RMB strengthens against United States dollar	(5)	(60,198)	–

* Excluding retained profits and exchange fluctuation reserve

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

CREDIT RISK

The Group trades only with recognised and creditworthy third parties. Concentrations of credit risk are managed by analyses by customer. At the end of the reporting period, the Group had certain concentrations of credit risk as 36% (2015: 50%) and 71% (2015: 82%) of the Group's trade receivables were due from the Group's largest customers and the five largest customers, respectively. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral for other financial assets such as prepayments, deposits and other receivables.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and bills receivables are disclosed in note 18 to the financial statements.

LIQUIDITY RISK

The Group policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed facilities from banks and related companies to meet its commitments over the foreseeable future in accordance with its strategic plan. At the end of the reporting period, all of the Group's financial instruments would mature in less than one year.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Financial liabilities

	2016			
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	Total RMB'000
Trade and bills payables (note 20)	3,851,911	5,226,623	1,040,276	10,118,810
Other payables	53,033	230,877	332,173	616,083
	3,904,944	5,457,500	1,372,449	10,734,893

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

LIQUIDITY RISK *(Continued)*

Financial liabilities (Continued)

	2015			
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	Total RMB'000
Trade and bills payables (note 20)	1,986,952	6,161,653	1,116,740	9,265,345
Other payables	41,937	403,695	215,211	660,843
	2,028,889	6,565,348	1,331,951	9,926,188

CAPITAL MANAGEMENT

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2016 and 31 December 2015.

The Group monitors capital using a gearing ratio, which is net debt divided by equity. The Group's policy is to maintain the gearing ratio as low as possible. Net debt includes interest-bearing bank borrowings, less cash and bank balances. Equity represents equity attributable to owners of the parent. As the Group did not have any interest-bearing bank borrowings, the gearing ratio was zero as at 31 December 2016 and 31 December 2015.

32. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2016 RMB'000	2015 RMB'000 (restated)
NON-CURRENT ASSETS		
Investments in subsidiaries	7,886,015	6,689,132
CURRENT ASSETS		
Prepayments, deposits and other receivables	13	13
Trade receivable	3,725,464	3,713,277
Dividend receivable	142,111	142,111
Cash and bank balances	4,595	4,586
Total current assets	3,872,183	3,859,987
CURRENT LIABILITIES		
Trade payable	3,976	1,340
Total current liabilities	3,976	1,340
NET CURRENT ASSETS	3,868,207	3,858,647
TOTAL ASSETS LESS CURRENT LIABILITIES	11,754,222	10,547,779
Net assets	11,754,222	10,547,779
EQUITY		
Share capital	4,052,228	4,052,228
Other reserves	7,701,994	6,495,551
Total equity	11,754,222	10,547,779

Wang Chuan-fu
Director

Wang Nian-qiang
Director

32. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Note:

A summary of the Company's other reserves is as follows:

	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2015 (restated)	(275,326)	5,888,310	5,612,984
Profit for the year (restated)	–	908,145	908,145
Exchange differences on translation of foreign operations (restated)	(25,578)	-	(25,578)
Total comprehensive income for the year (restated)	(25,578)	908,145	882,567
At 31 December 2015 and at 1 January 2016 (restated)	**(300,904)**	**6,796,455**	**6,495,551**
Profit for the year	**–**	**1,233,491**	**1,233,491**
Exchange differences on translation of foreign operations	**123,917**	**-**	**123,917**
Total comprehensive income for the year	**123,917**	**1,233,491**	**1,357,408**
Interim 2016 dividend	**–**	**(150,965)**	**(150,965)**
At 31 December 2016	**(176,987)**	**7,878,981**	**7,701,994**

33. EVENTS AFTER THE REPORTING PERIOD

With the approval of the board of directors on 28 March 2017, the Company declared the payment of an annual dividend for the year ended 31 December 2016 of RMB0.069 per share (equivalent to HK$0.07781 per share, converted based on the average benchmark exchange rate for Renminbi to Hong Kong dollars as announced by the People's Bank of China for the five business days prior to 28 March 2017, being the date when the dividend was declared). The dividend shall be paid in Hong Kong dollars and amounted to approximately RMB155,471,000 in aggregate based on the total number of issued shares of the Company as at 31 December 2016 of 2,253,204,500. This proposed dividend is not reflected as dividend payable in the consolidated financial statements.

34. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 March 2017.

FIVE YEAR FINANCIAL SUMMARY

RESULTS

	Year ended 31 December				
	2016	2015	2014	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
REVENUE	**36,734,264**	29,285,830	19,832,127	16,062,179	14,090,909
Cost of sales	**(33,934,135)**	(27,382,285)	(17,726,965)	(14,383,177)	(12,900,805)
Gross profit	**2,800,129**	1,903,545	2,105,162	1,679,002	1,190,104
Other income and gains	**474,005**	451,442	291,908	261,870	250,006
Government subsidies	**25,502**	47,852	–	–	–
Research and development costs	**(978,772)**	(722,270)	(709,087)	(559,772)	(529,626)
Selling and distribution costs	**(184,698)**	(152,044)	(162,091)	(132,526)	(126,149)
Administrative expenses	**(562,215)**	(453,609)	(386,929)	(343,369)	(299,203)
Other expenses	**(113,914)**	(35,390)	(121,229)	(146,392)	(52,304)
Finance costs	**(26,953)**	(3,089)	(5,530)	(7,248)	(2,520)
PROFIT BEFORE TAX	**1,433,084**	1,036,437	1,012,204	751,565	430,308
Tax	**(199,593)**	(128,292)	(110,507)	(103,160)	(51,362)
PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	**1,233,491**	908,145	901,697	648,405	378,946
ASSETS AND LIABILITIES					
TOTAL ASSETS	**23,994,987**	22,244,401	16,834,457	13,876,605	11,888,796
TOTAL LIABILITIES	**12,240,765**	11,696,622	7,169,245	5,042,464	3,634,378
Total equity	**11,754,222**	10,547,779	9,665,212	8,834,141	8,254,418

比亞迪電子(國際)有限公司
BYD ELECTRONIC (INTERNATIONAL) COMPANY LIMITED